

Mozambique – European Community

Country Strategy Paper

and National Indicative Programme

for the period 2001 - 2007

The Government of the Republic of Mozambique and the European Commission hereby agree as follows:

- (1) The Government of the Republic of Mozambique, represented by <name and title>, and the European Commission, (represented by <name and title>,) hereinafter referred to as the Parties, held discussions in <place> from to with a view to determining the general orientations for co-operation for the period 2001 – 2007. The European Investment Bank was represented at these discussions by <name and title>. During these discussions, the Country strategy paper and an Indicative Programme of Community Aid in favour of Mozambique were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000. These discussions complete the programming process in Mozambique. The present Country Strategy Paper and the Indicative Programme are annexed to the present document.
- (2) As regards the indicative programmable financial resources which the Community envisages to make available to Mozambique for the period 2001-2007, an amount of €274 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of €55 million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The indicative programme under chapter VI concerns the resources of the A-allocation as well as uncommitted balances of former EDFs, for which no projects and programmes have been identified under the respective National Indicative Programmes. It also takes into consideration financing from which the Republic of Mozambique benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet make part of the indicative programme.
- (5) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Mozambique, within the limits of the A- and B-allocations referred to in this document and under the condition that sufficient resources are available in the general reserve of the eighth EDF. The respective projects and programmes shall be implemented according to the rules and procedures of the eighth EDF until entry into force of the Financial Protocol for the Ninth European Development Fund.
- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement (*see Chapter 5 and Section 6.2.3 for further details*).

- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Support Strategy and the Indicative Programme in the light of current needs and performance.

The mid-term review shall be undertaken within two years and the end-of term review shall be undertaken within four years from the date of signature of the Country Support Strategy and the National Indicative Programme. Following the completion of mid-term and end-of term reviews, the Community may revise the resource allocation in the light of current needs and performance.

The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the ACP-EC Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

Signatures

For the Government of Mozambique

For the Commission

Country Strategy Paper

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PART A : CO-OPERATION STRATEGY

EXECUTIVE SUMMARY

The major challenges for Mozambique in the coming years are two-fold : the very weak capacity of human resources needs to be robustly addressed, and the country needs economic growth, at the household as well as the national level.

The issue of lack of capacity is apparent in all sectors and at all levels of society, and results in the vicious circle of weak public finance management and limited delivery of services to the population, which in turn causes, and is caused by long-term lack of access to, and poor, education and health.

Economic growth at household level is essential to creating not only a domestic market supply, but, more importantly, a domestic market demand in a country where 70% of the population live below – and many far, far below – the absolute poverty line. Where there is no domestic market, measures to improve trade flows can have only a limited effect, and “globalisation” will be an alien concept.

The main objective of this Country Strategy Paper is to seek to address some of the key determinants of poverty identified by the Government of Mozambique, and to support the Government in its overall objective of alleviating, and eventually eradicating, poverty. At the same time, the paper recognises that development co-operation funding can have a better impact when it is concentrated, when it is targeted, and when it is delivered in a complementary and co-ordinated manner with that of other donors.

This has led the EC to examine its past co-operation strategy in Mozambique, as well as the input of EU Member States and other donors, in order to establish where we have a relative comparative advantage. Many hours of discussions with Government and Member States in Maputo, including close co-operation and a shared analysis with Sweden, have led to the conclusion that the EC should continue with its interventions in the areas of transport - concentrating largely on periodic maintenance and capacity building, food security and agriculture, and macro-economic budgetary support. These are, indeed, the areas where the EC has most weight in the policy dialogue, considerable past experience and where large amounts of funds are required to the extent that few, if any, other donors would be in a position to fill the financial or policy gap.

At the same time, the EC acknowledges that the health sector will require substantial funding in the future, more particularly to deal with the ravages caused by HIV/AIDS and other communicable diseases. For this reason, the EC proposes to also contribute to the sector on a non-focal basis, through pooling mechanisms for essential medicines, for example. Again conscious of the fact that political stability and good governance are essential pre-conditions for effective development, the EC proposes to provide funding on a non-focal basis as and when reforms in the area of good governance and the rule of law make feasible its sustainable delivery.

The overall indicative distribution of funds is as follows : macro-economic budgetary support 45-55%, transport 25-35%, food security and agriculture 0-15%, to be allocated if required at the review stage should there be a shortfall in the Community budget line which has traditionally provided financing to this sector. In addition, 10-15% of the envelope will be allocated to health-HIV/AIDS, good governance and capacity-building for civil society 10-15%.

1. EC CO-OPERATION OBJECTIVES

In accordance with Article 177 of the Treaty establishing the European Community, community policy in the sphere of development co-operation shall foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of the developing countries into the world economy;
- The campaign against poverty in the developing countries.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, which puts main emphasis on the objective of reducing and eventually eradicating poverty. Co-operation between the Community and Mozambique shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement – especially the principle of encouragement of the development strategies by the countries and populations concerned - and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that, in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership of development strategies.

2. POLICY AGENDA OF THE MOZAMBIKAN GOVERNMENT

National policy and planning documents in Mozambique all have poverty reduction as a key objective. The Government's Five-Year Plan, approved in February 2000, provides the framework of guidelines and development objectives that constitute a **broad platform** for other policy statements. Four central policy objectives are identified: reduction in the incidence of absolute poverty; broad-based rapid and sustainable growth ; regional economic development; and the consolidation of peace, national unity, justice and democracy.

In 2000, the Government prepared its Action Plan for the Reduction of Absolute Poverty 2001-5 (PARPA), which was updated and improved during a more ambitious exercise in 2000-01. The

PARPA now represents a comprehensive and detailed articulation of the Government's strategy for **poverty reduction**. Though it also refers to **growth**, it actually lacks a growth strategy. The PARPA (or PRSP) incorporates and captures the core elements with high impact on poverty reduction of other policy statements, in particular sector policies. The PARPA reflects a high level of ownership and commitment to a wide and evolving **consultation process**, which is a prerequisite for its sustainability. It outlines the basis for **monitoring implementation** and **assessing the impact** of Government policies and actions in relation to poverty reduction. Regular evaluation and updating will allow for continued improvements in focus and content of priority measures.

The overall – rather ambitious - objective of the PARPA is to **reduce the incidence of absolute poverty** from 69.4% of the population to about 59% by 2005 and to 50% by 2010 (in actual figures, this means pulling 1.2 m. people out of poverty by 2005, and a further 1.2 m. by 2010). The PARPA is anchored on the assumption **that poverty reduction needs a strong broad-based and non-inflationary growth that benefits the poor**, combined with pro-poor oriented social and rural development policies, as well as higher and more effective poverty-oriented public expenditure. The Government intends to create macroeconomic and business conditions conducive to an ambitious average annual real rate growth of 8% - though there is little indication of what new sources of economic growth are to emerge in response to policy changes. The effects of HIV/AIDS could reduce this growth by 1% per annum. Whilst it has been possible to achieve such rates in recent years, the PARPA makes it clear that it aims at **poverty-reducing growth**, namely through private sector development and appropriate public policy measures benefiting the poor.

Central to the discussion on the growth model to be favoured by the Government in the allocation of public resources, in the delivery of public services and in exercising its regulatory powers over public investment, is a profound concern at the **substantial poverty imbalances** between provinces, as well as between urban and rural areas. The Government has drawn lessons from the impact thus far of the "mega-projects" experience, and is aware of the risks of geographical and sectoral polarisation resulting from this approach. Whilst such projects are largely contributing to economic growth, the PARPA itself recognizes that "**the poor do not benefit automatically** from good macro-economic statistics".

The PARPA has built and improved upon the previous analysis of the **main determinants of poverty, identifying a key set** - slow economic growth until the beginning of the 1990s, mainly due to the civil war; low education and training levels, particularly amongst women; poor basic health services; high household dependency rate; low agricultural productivity, particularly in the smallholder sector; lack of employment opportunities and; weak infrastructure, particularly in the rural areas. To this list, must now be added the **devastating impact of AIDS** on the national economy. The focus on six main areas - **good governance, legality and justice; macroeconomic, financial and trade policies; education; health; agriculture and rural development; and infrastructure** - transports, energy and water supply - is designed to address the above key determinants of poverty.

PARPA clearly states that **good governance** is one of the fundamental conditions for a successful strategy of poverty reduction. The vital role of **deconcentration**, as well as administrative and financial decentralisation to provincial and central level, is also recognised. In the area of governance, the EC would encourage the Government to examine how it envisages its own role, as well as that of **donors and of the different members of civil society**, in being able to contribute to creating an environment conducive to the reinforcement of democracy on the political front, and to sustaining investor confidence on the economic front.

The Public Sector Reform is the core element to **strengthen the institutional capacity** of the Government **at central and local level** to define, implement and monitor sound policies aimed at promoting economic growth and reduce poverty. The outline of a plan for reform addresses a wide range of problems, including salaries, capacity, corruption and policy coordination.

The main objective of the **macroeconomic, financial and trade policies** is to maintain macroeconomic stability and create conditions conducive to promote private sector-led growth, with exchange rate stability and low inflation in the context of a more open economy, whilst allocating more budget resources to poverty reduction activities. Increasing **domestic revenue collection** over the medium term is a priority for the Government to correct fiscal imbalances and to finance increasing expenditures and service delivery in key sectors of the PARPA, with a view to reducing dependence on external financing. The Government is preparing a **new package of measures** that should give a fresh impetus to the public expenditure reform initiated in 1997, focused on financial management and controls.

The Government's **monetary and financial policies** aim at promoting a sound financial system, based on a more independent role for the Central Bank. The recent financial crisis, brought on in particular by the solvency problems of the Banco Austral, highlights the **need for a comprehensive reform** of the financial sector, not least to maintain investor confidence.

Concerning **trade policy**, Mozambique, a WTO member since 1995, adopted in 1999, and is now implementing, a formal Trade Policy Strategy (TPS) as part of its effort to modernize the economy. At a regional level, Mozambique, as a member of the Southern African Development Community (SADC), signed a Trade Protocol that became effective in 2000, and whose main objective is the establishment of a **SADC Free-Trade Area**. Finally, the **Cotonou** Agreement establishes preferential trade and aid links with the E.U. Most-favoured nation (MFN) import duties range from 2.5% to 30% ad valorem, and the simple average applied MFN tariff rate is 13.8%, among the lowest in southern Africa.

Given its impact on the development of human capital, **education - particularly of girls** - plays a decisive role in promoting broad-based economic growth that is inclusive, as well as contributing to the reduction of poverty. The PARPA's main objectives in the education sector are to **expand access, to improve quality and efficiency, and to reduce costs**. It also recognizes that ethical problems (e.g. corruption, sexual harassment) negatively affect the education system. The PARPA expresses concern with the **lack of availability of qualified human resources** and institutions. The **reform of the public sector**, and the capacity of human resources in general in Mozambique, is **inextricably linked to education**.

The Education Sector Strategic Plan (ESSP), adopted in 1998, is a well-defined sector programme approach with a positive vision and clear objectives and priorities, which targets all levels of education. The lack of primary school teachers is, however, perhaps the **major constraint** in the sector, limiting the numbers of students who pass into the secondary level and, by the same token, to higher education.

Health is a key element of the PARPA, which makes the link between **better health and breaking the poverty cycle**. It also results in greater economic security and higher productivity at the household level. Hence, expansion of the network and delivery of good quality sustainable health care, particularly for the poorest, are primary objectives of the PARPA. The last five-year programme set out an ambitious **decentralisation strategy**, which required all provinces to execute the national health policy through locally managed services.

The Strategic Plan which is now being developed reinforces this emphasis on decentralization to improve access to health care, particularly to the poorest sections of the population. A period of **consolidation of assets** is now needed, in terms of maintenance, human resources and equipment. The Plan, together with the preparation of a Medium Term Expenditure Framework for the health sector (both documents expected to be approved in June 2001) should, furthermore, provide the policy framework for the development of a **health sector wide approach (SWAP)**, in which the government will work with donors to develop joint procedures for budgetary support in the sector. This latter development translates a **gradual shift in Government policy** over the last few years. Joint working arrangements between donors and the Government have already resulted in a number of “**building blocks**” being laid in the form of a series of **pooled funding arrangements** for budget support to the provinces, essential medicines and technical assistance.

With regard to **budget support to the provinces, funds provided by the central level through the donor pool are now managed at provincial level**. In spite of acknowledged huge capacity constraints, the provincial health departments are now able to disburse about 70% of the funding available to them. Moreover, a new programme of \$ 12M, financed by USAID, will concentrate exclusively on financial and human resource management at provincial level. This programme will benefit not only the Ministry of Health, but also other donors wishing to channel funds at this level. The main benefit will, indeed, accrue to the local populations in terms of improved service delivery. A **constraint to delivering funding at the provincial level** is still, however, the **weak capacity of the provincial departments** of the Ministry of Plan and Finance.

The National Health Sector Policy stresses the importance of developing a **multi-sectoral poverty reduction approach to improve health care**. Medium term policy objectives in the PARPA therefore include **improvements of** access and quality of health care, focusing on women, children and other disadvantaged groups. A **reduction** in the impact of AIDS is also an objective, including access to voluntary testing and counselling as well as assistance to sufferers. Interventions focus mainly on the **primary and secondary levels of care**, and this policy is also reflected in the PARPA as a **priority to improve the situation for the poorest**.

The EC would encourage the Government to examine the **role of other actors**, including the private sector, in the preparation of the new Plan. Furthermore, whilst fully agreeing on the importance of all of the components of the Government's programme in the area of health, the EC feels that **stronger emphasis** should be placed on **family planning mechanisms** in the light of the strong demographic increase (2.6% in 2000), and of the direct impact of such measures on poverty alleviation. **Corruption**, mainly due to low salaries in the sector, needs to be addressed.

The Government has recently taken a **robust stance** in addressing the **HIV/AIDS epidemic**. A National Strategic Plan (PEN) was approved in 1999, and in 2000 the **National AIDS Council (CNCS)** was set up. A multi-sectoral action plan - based on the PEN and involving all Ministries - was presented by the CNCS in December 2000. The CNCS, together with its provincial and regional offices, will have a **co-ordinating role** and an overview of all AIDS-related activities.

Given the importance of **agricultural activities** for the large majority (almost 80%) of the population, as well as the **concentration of poverty in rural areas** (82% of poor), agriculture and rural development is one of the key areas of the PARPA. The two main pillars of the Government's strategy are **to empower the agricultural producers** to increase their productivity, and to **transform public services** into facilitators and supporters of the producers, through the provision of essential extension services.

The key role played by **food security** in the Government's poverty reduction policy is reflected in the Food Security Strategy, the National Programme for Agricultural Development (PROAGRI), and the National Food Security and Nutrition Strategy (NFSNS). The latter, approved in 1998, delegates the responsibility for the formulation of its action plan to the Ministry (MADER). The strategy mainly aims to **link food security to rising production** and diversification of food crops, better and **more diversified sources** of non-farm income, and **improved knowledge** of appropriate technologies for food production and conservation. Agriculture is seen largely as **a factor of growth** in PARPA, with an emphasis on areas of higher potential and improved productivity. The EC feels that a **more pronounced poverty reduction bias** could be achieved through the targeting of household poverty.

PROAGRI, launched in January 1999, is a key element in the Government's strategy to improve food security. As a sector-wide approach, it is essentially a **process of institutional reform**, an instrument through which the capacity of MADER to undertake its **newly defined core functions** efficiently and effectively can be transformed and enhanced. The programme is making good, though slow, progress, as reflected in the May 2000 GoM-Donors Aide-Memoire, particularly in terms of the **convergence of projects** in the Ministry and the **progressive adoption** by donors of common implementation arrangements. PROAGRI tackles some of the **key determinants of poverty**, though some adjustments to better fit the needs of the PARPA could be addressed by the EC and other donors in the context of the policy dialogue.

In parallel to the development of the sector programmes, the Government also recognised that tackling the multi-dimensional nature of rural poverty required a **co-ordinated effort**, focusing on the most vulnerable groups. Indeed, unless the energies of public, non-state and private agents could be effectively mobilised and co-ordinated, the **state alone** would not be able to make sufficient progress. In response, the Government approved new Guidelines in 1998, which defined four central themes of the administration's role in rural development, with **decentralisation** probably being the most important, particularly in assessing the **impact** of projects on poverty. The EC is ready to help the Government prepare a strategy to prioritize planning at local level.

The **development of infrastructure** is **instrumental** in attaining the PARPA objective of promoting broad-based growth, and reducing poverty and regional asymmetries. To this end, the PARPA clearly underlines the importance of the provision of basic infrastructure **linking rural areas to markets and basic social services**. In this context, the soon-to-be-finalized Integrated Road Sector Strategy, which is a 10-year investment plan, calls for almost doubling the maintained tertiary network – including feeder roads – in order to extend **economic and other opportunities** to rural populations. The thrust of the strategy for **secondary roads** is to connect poles of economic activity, tourist sites and provincial and district capitals to the national network, whilst ensuring **good access to the main ports and railways** to encourage trade.

The PARPA also emphasises that the development of the **private sector as an engine of economic growth** depends on the availability of good infrastructure. The current policy, approved in 1996, identifies as a priority the **involvement of the private sector** in the construction and rehabilitation of transport infrastructure, in the management by contract or concession of the ports, railways and airports, and in the companies involved in air services and shipping. The Government retains the role of **facilitator**, responsible for defining policies and creating an environment conducive to attract investment, as well as being responsible for the establishment of **regulations**, the **licensing** of transport activities, and **supervision and control**. The PARPA's emphasis on infrastructure cannot, however, be to the **detriment of services**, or

ignore the effects on poverty alleviation of addressing the issue of **non-motorized transport**. This is a challenge for further improvements in developing the sector-wide approach, which should be reflected in an updated PARPA.

In the regional context, Mozambique plays a **crucial role as a transit country** for several of its land-locked neighbours, but this has not been addressed by the PARPA. The Government has, however, ratified the SADC Protocol on Transport, Communications and Meteorology (MTC), which deals with issues such as axle load, truck combinations, calculation of cross border road user charges, and driving licenses. Furthermore, Mozambique has created a concept of **Economic Zones** – coupled with a special fiscal regime – to **attract investment** to the Zambezi River Basin, the Maputo Development Corridor and the Beira corridor. These aspects should be linked to the analysis of sources of growth, and also reflected in an updated PARPA.

Neither does PARPA address the issue of **road safety**, which is a directly pro-poor objective. In this context, road accidents have now reached epidemic proportions in Mozambique, which places an added strain on an already overburdened health system.

PARPA's main objectives in terms of **energy policy** are to **expand access** to energy sources, to reduce the **environmental impact** of the use of non-renewable sources, as well as to promote the use of **new and renewable** energy sources, to contribute to the **supply** of energy in the main, as well as more remote, regions of the country, and to encourage **private sector** activities.

The 1995 National Water Policy (NWP) identifies **integrated water resource management**, **expansion of basic water and sanitation** services, and the **economic value** of water services as priorities for poverty alleviation and sustainable development. A first major step in the implementation of this policy was the creation of a water investment fund (FIPAG) in 1998. On an international level, the Government signed in 2000 the revised Protocol on Shared Watercourses in the SADC region.

Substantial progress has been noted as the PARPA has advanced as a major policy document for the Government, which makes it possible – and indeed even necessary – for the EC to use it as a framework for its development co-operation. Though a move to consolidate the PARPA as the **overarching poverty strategy** could be supported, the quest for coherence between the complementary policy documents (5-Year Plan, annual budget, MTEF) can only be undertaken by the Government. The EC should be ready to support a gradual evolution towards a closer methodological integration between sector approaches and the overall poverty reduction strategy. As the PARPA is a roll-over strategy, the EC would suggest incorporating into the process, **elements of consultation** with representatives of various government bodies (central, provincial and district), National Assembly, private sector, civil society in general, and donors ; linkages to the MTFF (Medium-Term Fiscal Framework) in order to prioritise activities in the light of limited resources ; identification of the main sources of growth and how they interact at national and regional level; and improvement of public finance management.

There are, certainly **challenges and risks** inherent in implementing the PARPA. Though the Government stresses the development of a strong institutional capacity to counter a **crippling shortage** of qualified human resources, there is a **risk** that implementation will be seriously affected by the **weak civil service capacity**, including at all stages of the budget process and public service delivery. The **challenges** ahead are to: move ahead quickly with the reform of the civil service, elaborate an **economic diversification strategy**, including an enabling environment for the private sector and regional integration; to **further integrate** the various planning and budgeting instruments; to select **key performance indicators** to monitor impact on poverty. In this context, the lack of monitoring indicators for some of the sectors, particularly

those where there is no clearly defined sector programme, could be overcome as work on the definition of indicators for other sectors progresses. The selection of such indicators should, however, be validated by all other donors. Building **monitoring capacity** is essential to this goal. To ensure effective contribution to the implementation of the PARPA, there is also a need to **improve and implement** the public sector reform programme and public expenditure management reforms, as well as related capacity building.

As the objectives and results expected of PARPA in the medium term are particularly ambitious, in terms both of budgetary management and poverty alleviation, their implementation will require an unfailing commitment to financial regulation and management, and to the social services, particularly in rural areas. More concretely, budgetary support as a way of financing the fight against poverty implies making the accompanying structures in the technical ministries more functional, in terms of technical and financial aspects and the production of regular and reliable statistics on the different sectors.

3. COUNTRY ANALYSIS

On the political front, general elections have been held twice in Mozambique since the 1992 Peace Agreement. The democratic process is fragile, but though risks of conflict and political tension exist - as evidenced by the events of November 2000 - there is a **widespread war-weariness** and a continued **strong wish for peace**. Though it has been launched, the process of **political dialogue** is still a faltering one. The weak political culture in the country is obvious at the level of parliament, due in part to lack of experience and resources, as well as to a certain mistrust among its members. A growing feeling of **exclusion** among those who have not seen the benefits of development since 1992 seems to have increased the social and political tensions in Mozambique. The connection between power and money in Maputo City, where the elite has visibly benefited from rapid liberalisation, has contributed to these perceptions.

The fact that state apparatus is weak and has a **limited absorption and implementation capacity** constitutes a **major obstacle** to the efficient development of the country. **Corruption** is in evidence in the absence of appropriate public financial management systems and public procurement of goods and services, and against a background of pitifully **low wages** in the public sector. A **chronic lack of resources** – both human and financial – limit the conditions for the **decentralisation** which is necessary for the reduction of regional imbalances and the effective delivery of services at local level. This lack of resources is also reflected in the **weakness of the judiciary system** and law enforcement institutions, which in turn has serious implications for the **rule of law and human rights**. In spite of improvements, the human rights situation remains mitigated, with several areas demanding continued attention and reform. These **governance** issues have both political and economic implications.

Freedom of the press was granted by the 1990 Constitution. The media is now becoming more open and outspoken than previously, and is helping to create conditions for a **critical debate of society**. One big setback in this context was, however, the November 2000 murder of the famous investigative journalist, Carlos Cardoso.

In the short-term, there is an urgent need for the Government and the opposition to find a **political solution** to the crisis for stability's sake. However, in the medium-term the **political and institutional systems need reform**, in order to bolster good governance and to deepen and strengthen the democratic process. In this context, the 1990 wartime **Constitution**, which marked an important step in the democratic process by separating the functions of the executive,

legislative and judicial powers, and creating the legal framework for a multi-party political system, would probably benefit from a revision to take account of the changed circumstances.

The relationship between **Government and civil society organisations** remains weak, though the government should be given credit for trying to improve the dialogue. The initiatives towards civil society are, however, quite new, and have yet to show **substantial concrete results**. The dialogue with the **private sector** has been going on for a number of years, but results are apparently constrained by red tape, heavy bureaucracy and lack of incentive schemes.

On the economic front, a **rapid recovery** and catching-up process took place after the peace agreement in 1992, though from **very low base levels**. Thanks largely to the combination of increased political stability, sound economic reforms, good weather conditions and substantial financial support from the international community, the **real GDP grew** at an average annual rate of 7.7% from 1993 to 1999, with a cumulative rate of 68.2%. During the same period, real GDP per capita improved by 48.2%. The severe emergency caused by the 2000 and 2001 floods has, however, **significantly affected immediate economic prospects**. In 2000, growth slowed to 2.1%. In spite of this, the Government is confident that growth will **regain momentum** in the foreseeable future, though it is unclear how such growth is to be achieved.

The **current account deficit** before grants improved from -45.7% of GDP in 1994 to -28.5% of GDP in 2000, although this is unsustainably high. More robust **export-based growth** is required for further improvements. Over the last ten years, **external assistance** has allowed a reduction of the current account deficit after grants by more than one-third, mitigating the constraint imposed by the high investment savings gap. Given the bleak prospects for improving **domestic savings**, the country will continue to depend significantly on external aid.

Since 1994, Mozambique's **trade in goods by destination** has undergone fundamental changes. This finds its most striking expression in a **considerable narrowing of trade** with the E.U. (34.7% of exports and 33% of imports in 1994, 27% and 15.8% respectively in 1999) and a **corresponding expansion** of trade in the sub-region in general (21% of exports in 1994, 31% in 1999), and with South Africa – now the leading source of imports (44% in 1999) - in particular. Although the E.U. is still the **main destination** for Mozambique's exports, S. Africa has become increasingly important. This reflects the benefits of closer integration with neighbouring SADC member countries (S. Africa, Zimbabwe, Malawi), whose market shares represent more than 40% of Mozambique's trade, and shows the **importance to the economy of regional links**. Mozambique provides **access to the sea** for several landlocked neighbours, whilst the regional **transport corridors** to Mozambican ports are an important source of foreign revenue. Hydro-electricity from the Cahora Bassa dam and gas from the Pande fields are also important **potential sources** of export revenue. These ties provide a basis for further economic integration into the region.

Trade in **fisheries products** - mainly crustaceans – provides almost 40% of foreign exchange earnings, (\$ 88 M in 1999 of total exports of \$268 M) though **few benefits** accrue directly to the population in terms of employment and value-adding processes.

Public expenditure management policies have generally supported **macro-economic stability**, whilst allowing for **piecemeal reforms of the budgetary system**. With the aid of the international community, which supplies 50% of budget needs, the Government was able to finance its ambitious post-war reconstruction programme and reduce fiscal imbalances. One of the key issues is off-budget expenditure. Progress has been made in public expenditure management since the late 1990s by strengthening the **legal framework, public resource**

programming and budgeting, public accounting, budget reporting on implementation and **financial audits**. Renewed reform efforts in public expenditure management can be noted in the following specific : a new comprehensive **Public Finance Law** has been drafted, which is to provide a legal basis for reforms and facilitate the introduction of generally accepted accounting standards in the public sector and reforms of the cash management system, as well as ensuring budget comprehensiveness; a more **detailed system of budget classification** has been implemented, which will allow budgeting and tracking of expenditures for priority sectors as identified in the PARPA; the **closure of state accounts** has been made more regular, whilst the regular production of **quarterly budget execution reports** since the first quarter of 2000 has begun to form the basis for a meaningful policy dialogue between the government and donors; the MPF has established a unit (UTRAF) to **co-ordinate the reform programme**.

The Government, increasingly concerned with the quality of public expenditure and financial accountability issues, has undertaken a public expenditure review and a Country Financial Accountability Assessment (CFAA) with WB assistance. The on-going reforms, however, include many elements and parallel activities whose links and sequencing do not yet appear to be thought through. There is, therefore, a need for a comprehensive government action plan which ensures the comprehensiveness of all budget resources by enforcing legislation and putting into place new accounting and cash management systems. The Joint Donor Group is using the policy dialogue to call for further improvements in the systems, procedures and in capacity building for internal and external financial controls. A **comprehensive government action plan** is expected to feature in the future and annual update of the PARPA, thus allowing for better donor co-ordination in providing financial and technical assistance. This action plan would certainly benefit from the findings and recommendations of financial management assessments carried out by the JDG, as well as from the ongoing PER and CFAA.

Monetary indicators showed, until 1999, a policy consistently in line with the pursuit of **medium-and long-term sustainable economic growth**, low inflation, and stable exchange rate. The central bank then started to **lose full control** over the monetary aggregates, adversely affecting both price and currency stability. Inflation reached 11.4% at the end of 2000. This reflects the combined effects of a excess **monetary expansion, temporary shortages** caused by the floods, and increases in oil prices. The Bank of Mozambique's control over the monetary and credit markets has been severely tested by the **serious liquidity and solvency problems** of two important commercial banks – Banco Comercial de Moçambique and Banco Austral - where the Government has a 49% share and 100% share respectively. Addressing these issues will have a major impact on the effective use of limited budget resources, and raise serious governance concerns. In addition, inadequate solutions in the financial sector pose serious risks to macroeconomic stability, thus jeopardizing the achievement of PARPA objectives.

Mozambique successfully attained the completion point under the **HIPC initiative** in June 1999, and received \$3.7 billion in debt relief (\$1.7 billion in today's values), the largest operation under HIPC so far. Furthermore, the country reached the **completion point under the enhanced HIPC** in September, adding M\$ 600 to that figure. The HIPC initiative will provide **additional budgetary savings** of about \$115 million a year (2.8% of GDP) from 2000-2005, to be reallocated to the priority sectors for poverty reduction as outlined in the PARPA.

Over the last few years, **significant progress** has been achieved in **liberalising** and opening up the economy, moving away from a closed, centrally planned model toward **reliance on market mechanisms underpinned by private ownership**. Investments worth \$3 billion (97-99) have been made in industry, agriculture, tourism, fisheries, transportation and banking/insurance. A return towards isolationism is, however, evidenced by the Labour Law, which effectively acts as a disincentive to private foreign investment.

The private sector is, however, still undergoing **considerable rationalisation**, trying to overcome **bottlenecks** such as administrative red tape (a governance issue), under-capitalization, lack of skilled labour and infrastructure. Furthermore, the **cashew** sub-sector - once a major contributor to export revenue and employment - is facing a **severe crisis** due to the uncertainties of the current policy (a thorny issue with the WB). Production has dropped dramatically and the majority of cashew-processing plants have been forced to close. The situation of this sub-sector illustrates the need for a more strategic policy linking **agriculture to agro-processing**.

On the social and developmental front, projections from the 1997 census indicate a total population of 17.2 m. in 2000, of whom 52% are women. With an estimated population growth rate of 2.3% (2.6% in 2000), the country's population would be expected to reach 19.3 m. by 2005, without taking into account the impact of HIV/AIDS. The great majority - 79.7% - of the population live in the rural areas. Indeed, Mozambique has one of the **lowest rates of urbanisation** in the world. One of the **poorest countries in the world** with a per capita GDP of about \$237, the UNDP Human Development Index (HDI) places Mozambique in last position among the 14 SADC countries and 169th out of 174 countries overall. Although it is difficult to compare Mozambique's performance with that of other low human development countries, their average HDI improved by only 7.2% over the last 8 years in comparison with Mozambique's 14.8% in five years. This **progress** has, though, come from a very low level, and is in **no way commensurate** with the significant economic performance during the same period.

According to the Government's national assessment of 1997 – the first serious attempt to provide a global and comprehensive view of **poverty in Mozambique** - poverty is very widespread, with more than 11 million people, or 69.4% of the population, affected. About 82% of the poor live in **rural** areas with **poor social and economic infrastructures**, in part as a result of the 10-year civil war that ended in 1992. The ever-present danger of **landmines** hampers many aspects of normal life and impedes economic development, as large tracts of the countryside – often uncharted – are still no-go areas.

Productivity in agriculture is very low and about 57.5% of agriculture production is for own consumption. Female-headed households in rural areas are **especially vulnerable**. **Urban poverty** is also widespread, caused largely by lack of employment or exceptionally low wages. About 62% of the urban population are also estimated to live below the poverty line.

A **common thread** running through the analysis of the different sectors, is that of **low capacity of human resources**, caused by the poor situation in the social sectors. Although there has been a significant improvement in the health status since the end of the civil war, it remains amongst the **worst in the world** (WHO ranks Mozambique 180th out of 191 countries for average level of population health), with access to health services limited to 39% of the population. The 1997 Census indicates that **access to education** is very low, at 39.6%. The **average literacy rate** is 25% for women and 54% for men.

There are **significant regional differences** in poverty levels, with the provinces in the central region of the country particularly badly affected. The regional incidence of poverty is related to an **unbalanced growth** process and an **unequal income distribution** mechanism within the Provinces. These regional imbalances find illustration **not only in economic terms, but also in terms of health and education**. There is a significant disparity in life expectancy between the provinces (national average 42.3 years for women and 40.6 for men, compared to 61.8 and 55.1 in Maputo province and 38 and 36 in Zambezia.) The under-5 mortality rate (U5MR) tells a similar story, to the extent that the WHO ranks Mozambique as the second most unequal country

in the world of “equality of child survival” (national average U5MR of 246 per 1000 live births, 97 per 1000 in Maputo province, 319 and 322 per 1000 respectively in Nampula and Zambezia). The main causes of child deaths are **malaria** and **chronic malnourishment**.

Equally, statistics on **education** reveal the significance of the **regional imbalances**. The 1997 Census shows that, in the north, only 14% of the women and 44% of the men are literate, as opposed to 21% and 55% in the centre of the country, and 77% and 93% respectively for Maputo City. Similarly, 28% of the population in the rural areas are literate, against 65% in the urban areas. These statistics also illustrate in a **telling manner** the **huge inequality in the education of women**, which has been identified as a key determinant of poverty.

The nature of **food insecurity** also illustrates the **differences between rural and urban areas**. The rural population faces very serious problems of income and physical access to food, and to a lesser extent, of utilisation of food. The agriculture sector comprises a large and heterogeneous **smallholder sector** - responsible for 94.9% of the value-added produced by the agriculture sector - and a very small number of **commercial enterprises** – generating only 5.1% of the value-added. The lack of diversification of most rural households, and their dependency on a **limited number of crops**, together with **lack of access to markets**, creates a situation of extreme vulnerability to adverse market or weather conditions. The level of **social infrastructures** is very weak, in particular in the rural areas. In rural and peri-urban areas, the provision of basic services depends heavily on the efforts and **motivation of the local community**. The lack of access to reliable water supplies, to sanitation and to secondary roads **seriously undermines** agriculture development and limits general economic growth.

The **AIDS epidemic** will produce dramatic changes in population structure, with projections showing a **dramatic drop** in the population growth rate from 2.3% to some 1.0%, or 18.1 m. people in 2005 instead of 19.3 m. The alarming rise in the number of **HIV infections** – more than 20% infection rate in the central regions - has transformed AIDS from a health crisis to a **development catastrophe** with serious implications in all sectors. UNAIDS predicts that the number of people living with AIDS will reach more than 1,6 m. in 2002. **Life expectancy** will drop to 35.9 years by 2010, compared to 50.3 years without AIDS. Though the impact will be **most serious at the household level**, it will also put an **ever-increasing burden on the health system**. The **economic impact** will be devastating, as the infection rate is highest among those of productive age. The **quality and quantity of human resources** will further deteriorate, and the capacity to deliver social services will be further impaired as doctors, nurses and teachers fall victim to the disease.

Important **gender inequality**, further accentuated by regional differences, and differences between urban and rural areas, is still evident. The Government is committed to implementing the **Post Beijing Action Plan** to promote the situation of women and reduce discrimination. A strategic plan, approved in 1997, includes poverty reduction initiatives through education programmes, credit, technical assistance and the development of the informal sector.

Although the level of **vulnerability to natural disasters** is high, with the poor the worst affected, the policy response has been **more reactive than proactive**. The high degree of **exposure** to hydro-meteorological hazards of sufficient magnitude to threaten millions of human lives and their well-being is evidenced by twelve major floods, nine major droughts, and four major cyclones between 1965-99. The 2000 floods were an unprecedented natural disaster. This **chronic vulnerability** brings deep and sudden collapses in economic growth, particularly in agriculture, whilst poverty is sharply increased by human and capital losses. Dealing with the

aftermath also represents a huge drain on human and financial resources. **Economic vulnerability** is also high in Mozambique, due to the weakness of the private sector, exposure to external economic shocks, and the enormous macroeconomic imbalances, which are currently met by external aid funds. As the country's economy depends on **natural resources**, the **protection of the environment** to ensure the sustainability of economic growth is a key issue.

Mozambique's main transport system (ports and three railway lines) originally consisting of transit corridors in an east-west direction to serve the neighbouring landlocked countries, was largely annihilated during the civil war. Commercial interests in the post-war rehabilitation of these corridors have led to a **relative neglect** of infrastructure serving the needs of the **domestic** transport network. Though the **ports and railway lines** play an important role here, they do not constitute the backbone of a network that ties the nation together. The only modes of transport that provide a truly **national network** are the roads and the domestic air transport system. The **major part** of domestic transport in the country is by **road**. Although transport facilities between Mozambique and its neighbouring countries are improving, driven by the demand from those countries, links between the north and the south of the country are still **very poor** and vulnerable to natural disasters.

The road sector strategy pursues the development and reform of the road sector that was initiated in two **Roads and Coastal Shipping Projects**, implemented with the support of the EC, the World Bank and other donors. Though nearly half of the classified roads have been **reopened and rehabilitated**, promoting **mobility** and providing **enhanced access** to most regions, the **very weak culture of maintenance** will reduce the longer-term benefits of the investments. **Institutional reforms** to ensure sound, sustainable and commercial management of the roads infrastructure are, therefore, crucial. Of importance here is the establishment of **a new road management system**, including the creation of an autonomous entity to manage the country's roads - the National Roads Administration (ANE) – and of a soon-to-be-autonomous Road Fund. This latter is, though, far from self-sufficient, and greatly relies on donor contributions.

The state-owned **port and railway company**, CFM, has been restructured – not without difficulty - into a holding company. Together with the Government, it is now committed to completing the concessioning of the main port and railway systems, as well as to bringing all three transport corridors under private sector operation. This restructuring process will, however, make about 12.000 people redundant. The involvement of the **private sector**, with the associated increase in competition, should have a **beneficial effect on services and costs**. The Government intends to extend the granting of concessions to other tertiary ports. **Coastal shipping and air transport** are to be liberalised gradually, so as to reduce the costs of domestic and international trade. Though the regulatory frameworks are being adapted, competition in the areas of **coastal shipping** and **domestic air routes** is still limited or non-existent. This sector, like many others, is characterized by **weak institutional capacity**. The development of national contractors who are able to contribute significant capacity in the execution of road maintenance and rehabilitation works is a key factor in the success of the road programme, in particular on the regional road network.

When looking back over the last 8 years, there is no doubt that Mozambique has come a long way from the **highly centralised political system** and a **devastated economy** it was. However, **serious challenges** still need to be met in terms of **good governance and political stability** to remove institutional obstacles blocking the path of effective development, and thus to increase the impact of development co-operation funds. **Public sector reform** – involving the crucial issues of decentralisation, public enterprise sector and public financial management - and **the**

reform of the judicio-legal system, are at the top of the list. Such difficult issues can only be addressed against a background of political stability and cohesion, as well as a **national consensus** on priorities and their sequencing.

The economy's development is likely to be based on **natural resources**, drawing on agriculture, fishery, forestry, minerals and energy. The country has an important and **little known potential** for growth in agro- and industrial processing, transport and other services. Public sector reform, as well as a legal environment which inspires the confidence of domestic and foreign investors, and which tackles corruption and red tape, would vastly benefit economic development. A comprehensive **pro-poor growth strategy** should encourage labour-intensive activities, promote export-oriented activities, link agriculture to agro-processing, and promote efficient transfer mechanisms to target the regions with most development difficulties.

The **improvement of human capital**, through education and health, is a **fundamental challenge**, and would again benefit from public sector reform in general, and more particularly from an effective decentralisation. **Macroeconomic stability** and an efficient expenditure programme that favours the social sectors, rural development and infrastructure are instrumental for the Government in reaching its ultimate objective of growth with significant poverty reduction– but macro-economic stability and an efficient expenditure programme are dependent on **sound public financial management**. In this context, the ability of the Government to **mobilise and sustain** a high level of budget support to underpin implementation of the PARPA will depend crucially on the concrete reforms and capacity improvements in this area.

4. ASSESSMENT OF PAST AND ONGOING CO-OPERATION

The 8th EDF National Indicative Programme was signed in March 1997, and was designed as the country was emerging from a period of intense internal conflict. Effective implementation started only in the second half of 1999, practically at the end of the rehabilitation process. As a result, NIP interventions were adapted as the macro-economic environment strengthened and as the Government started to develop detailed longer-term sector policies, especially for agriculture, health, education and infrastructure. In practice, this facilitated the avoidance of making **sectoral choices**, allowing continued involvement in many sectors through a large number of small interventions. Dispersion was further reinforced by the multiplicity of instruments.

The estimated distribution of the 6th, 7th and 8th EDF (M€23) by area of intervention is as follows: transport infrastructure 33.5%; macro-economic budgetary support 33.4%; health 7.1%; governance 6.6%; rural development 6.5%; water 4.9% and others 6.1%. The EC also provides substantial support through the food security and other budget lines.

Many other **bi- and multi-lateral donors** are active in Mozambique. Thirteen EU Member States are represented in Maputo (excl. LX and GK), with Switzerland, Norway, U.S.A., Canada, the World Bank, the IMF, the AfDB and the UN system also contributing more or less substantial funding. **The EC is the biggest single grant donor overall**, with the World Bank providing significant amounts of credit funding on IDA terms.

The Member States place a high or medium focus on the following areas of their interventions :

Austria : agriculture and rural development, water, good governance

Denmark : macro support, good governance, education, rural development, energy, health

Finland : education, health, good governance, agriculture and rural development

France : education, health, agriculture and rural development, water

Germany : agriculture and rural development, transport, energy, education, health

Ireland : macro support, education, health, agriculture and rural development, good governance
Italy : health, agriculture and rural development, water, good governance, education
Netherlands : macro support, good governance, education, health, water, environment
Portugal : education, agriculture and rural development, good governance
Spain : health, education, agriculture and rural development, good governance
Sweden : macro support, good governance, education, rural development, transport, energy
U.K. : macro support, health, education, rural development, good governance, transport

As far as the **main areas of intervention** to achieve impact on poverty reduction are concerned, the **EC** is the **lead donor** – in terms both of financial and policy input - for macroeconomic/budget support, followed by the UK, SWE and NL, with the WB providing substantial loans. The **weakness of budget planning** and control, as well as the capacity constraints of the public sector, may have **limited the impact on poverty** of structural adjustment funds. The Joint Donor Group (JDG) with nine members (EU and non-EU), and **led by the EC**, has gained a extremely strong and respected position in terms of policy dialogue with the Government on progress in the areas of poverty reduction, domestic resource mobilisation and public finance management, as well as in the negotiation of common disbursement mechanisms for budgetary support. Though the influence of the Bretton Woods Institutions is still apparent in this area, the JDG has become a **very important counterpart** in the policy dialogue.

In the **transport infrastructure** sector, the EC is far and away the biggest grant donor, followed by the US and SWE. The WB has provided substantial credit funding and has been leading the policy dialogue. The EC's **considerable financial support**, so necessary to re-establishing **vital transport links** destroyed by war, has facilitated construction of 1.500 km of roads, though the considerable delays and implementation difficulties encountered by many of the projects have reduced the impact of that support. **Reduced capacity** at the provincial level of government has also impeded donor/Govt. co-ordination. Inadequate capacity at the Delegation of late has meant reduced attention to the policy dialogue. In order to avoid such difficulties in the future, the EC has to move away from a **project-based approach**, rather lending **support to longer-term programmes**, and reinforce its presence in the policy dialogue.

Notwithstanding the above, the transport infrastructure rehabilitation programme has progressed such that **consolidation is now needed in terms of maintenance** in order to protect the country's investment, in terms of **capacity building** in order to ensure the sustainability of the programme, and in terms of **the regulatory framework** in order to enhance competition, reduce the cost to the end-consumer, and to improve road safety. The EC and other donors have successfully pushed for the establishment of an autonomous Roads Department and a soon-to-be independent Road Fund and Road Board. For the policy dialogue to be more effective, **considerable human and financial resources** will have to be channelled in support of a programme targeting poverty alleviation.

Many donors are involved in the **health sector**, with the U.K. being the biggest in terms of funding, whilst **Switzerland** has thus far led the policy dialogue in the sector. The EC is the sixth-biggest donor. The health sector is characterized by the presence of a multitude of small interventions by NGOs, churches, etc., etc., which are often out of the control of the Government, but which do fill gaps in the provision of services which the Government is unable to provide at local level. **Difficulties and delays** at all stages of the EC programmes, particularly with regard to infrastructure, have again reduced their potential impact. These problems need to be addressed in a new health sector programme (up to M€30, 8EDF), which will also build on the successes achieved. In terms of **policy dialogue**, the EC has recently

become a member of the donor core group, which is contributing to the Government's policy discussions on the development of a SWAP in the health sector.

As regards the **education sector**, the EC has had a more limited experience through NGO projects during the rehabilitation phase, and has not been much involved in the sector dialogue. The needs of the sector - inasfar as there is absorption capacity - are met by many other donors, including 11 Member States with Sweden and Ireland in the lead. Here again, a multitude of small interventions by NGOs and churches also take place.

The EC is the main donor by far in the area of **agriculture and rural development**, the bulk of which funding is currently provided through the **food security budget line**. The policy input of the EC as regards agriculture/food security has been crucial, particularly the progress that has been gradually achieved towards a sector approach –PROAGRI - promising potential for an impact on poverty. This potential can better be realised if the scope of PROAGRI is widened – the so-called “open” PROAGRI. Furthermore, the EC's efforts have recently successfully contributed to a **major shift in the policy** of the Ministry of Agriculture in terms of outsourcing of extension services. The EC has clearly become a valued partner in terms of policy dialogue (notably financial reform), in **promoting donor co-ordination** and **strengthening capacity building** in food security and early warning information systems. The poverty impact of the EC's intervention has been enhanced by a complementary field programme, with over 20 projects supporting crop improvement and diversification, producers' associations and agricultural marketing.

In terms of **rural development**, however, EC support was dispersed in a wide variety of operations throughout the country, with project selection often lacking a strategy, no clear institutional links with the line ministries and including neither poverty impact assessments or gender mainstreaming. The past intervention is tentatively being **replaced** by a more coherent programme - whose launching has experienced delays due mostly to the Commission itself - linking NGO-implemented operations to Government planning and budgeting, thus trying to build the conditions for a more strategic and sustainable support, with NGOs no longer **displacing the State** from its core functions. This programme has been designed to allow rapid access to social services in provinces with the worst poverty indicators. The EC's priority now is to overcome the protracted launch phase and to **strengthen the capacity of the provincial administrations** to take over the investments to be made. This represents a **substantial challenge** for the EC, whilst the move to increase collaboration at provincial level between the different actors and the Government should also reinforce government capacity to prioritize planning at local level. In view of the above-mentioned difficulties with the launching of such an operation, no replication of it should be envisaged, at least before the mid-term review.

Many donors are also active in the area of **good governance, legality and justice**. The policy dialogue is led by Denmark, with Sweden, the biggest donor in terms of funding, also being involved. The EC provided important **logistical support** for the last two general elections in 1994 and 1999, and the local elections in 1998, but **did not focus** on building sustainable capacity. Though the funding needs of the sector are great, it was not thought that additional funding earmarked under the 8th EDF would have any significant impact until **key reforms** are undertaken.

Finally, the EC has neither been active in nor provided funding to the **energy** sector, which is led by Norway, or the **water** sector, led by the Netherlands. In this latter context, 8th EDF funding earmarked for the water supply in the town of Beira has yet to be committed.

At the time of writing the proposal for the programming of the 9th EDF, an amount of approximately **M€100** still remained to be committed from 8th EDF funding.

In general terms, although the EC has been able to give **considerable financial assistance** to Mozambique, the **dispersion** of the programme, **a weak focus on institutions**, and **difficulties in implementation** have **limited the poverty impact** of the EC strategy thus far. Monitoring of poverty benchmarks has been weak. This suggests that the EC should concentrate in a very limited number of sectors, whilst moving from a project to a policy based programme approach, and reinforce complementarity with the strategies of the EU-Member States and other donors.

Under the second financial protocol of the Lomé IV Convention, the EIB has so far approved a total of ~~€~~**€1.9** million of the Bank's own resources and ~~€~~**€6.5** million of risk capital resources. The Bank's total commitments up to now exceed largely the indicative amount of €32 million which was envisaged in the 8th EDF's NIP. Mozambique is the **second largest user** (after Kenya) of EIB funds. Projects financed by the Bank are estimated to have created some **3160** jobs, and boosted exports of sugar, aluminium, cashew and hydroelectric power.

Co-ordination among the EC, Member States and other donors is fairly close, with particularly strong groups active in the areas of macro-economic support, food security and agriculture, and health, with notable progress made in policy dialogue and related reforms. Collaboration with MS in the elaboration of this strategy has been pronounced, and particularly close with Sweden.

Co-ordination and **coherence** of development co-operation assistance and other Commission policies, however, sometimes leaves to be desired. The Commission's trade policy, as well as the Cotonou Agreement, encourages insertion of developing countries into the world economy, announcing the Everything But Arms initiative as a contributory tool. Mozambique is trying to redevelop its once booming sugar industry, partly with EIB funds, and this is one of the few areas where it has export potential. Sugar exports, however, will benefit from **very partial liberalisation** under EBA only in 2006, and full liberalisation will not be achieved for the duration of this strategy, effectively offering little opening of the EU market in this area.

As mentioned above, **fisheries** products have provided a large proportion of the country's foreign exchange earnings, though this share has recently been declining in absolute terms, and is forecast to decline substantially more in proportional terms as exports from some of the mega-projects start. The products are exported – to a large extent without even having been landed or having created job opportunities in basic processing - under the auspices of commercial licensing agreements based on catch quotas. Weak control and monitoring capacity has led to **substantial commercial overfishing, unlicensed fishing and smuggling**, which obliges artisanal fishermen to take risks in putting further to sea, for longer, for much, much less. Concern has been expressed at continued and increasing fishing of shallow waters and the coastal mangrove swamps where shrimp breed, jeopardising future stocks as well as the delicate eco-system. This situation has already attracted the attention of some EU donors, such as Denmark, who tried to support the government's efforts to develop an overall strategy for sustainable fisheries.

5. EC RESPONSE STRATEGY

At this stage, it is important to recall the EC's **main objectives** in Mozambique : to **support the consolidation of democracy** and the **improvement of human rights** on the one hand, as well as the **Government's poverty reduction strategy** on the other, in order to contribute to the alleviation, and eventually to the eradication, of poverty. The **considerable funding** the EC will bring to the country can make a difference, but can only make that difference if it is focussed, if

it is targeted, if it is effectively delivered, and if it is accompanied by support to the Government in terms of **political and policy dialogue** to effect those **shifts in policy which are crucial** to unleashing effective development. The Government, in the PARPA, has identified six areas of intervention to address the key determinants of poverty in Mozambique which largely correspond to the **priorities identified by the Council and the Commission** for the refocusing of development assistance. Taking into account its past experience and its comparative advantage vis-à-vis other donors, the EC has a duty to respond **in those areas**, within the limits of sector concentration laid down in the Cotonou Agreement and by the EC's own guidelines.

It is **equally important** to recall here those **key determinants of poverty** : slow economic growth until the beginning of the 1990s, mainly due to the civil war; low education and training levels, particularly amongst women; poor basic health services; high household dependency rate; low agricultural productivity, particularly in the smallholder sector; lack of employment opportunities and; weak infrastructure, particularly in the rural areas; and HIV/AIDS.

The EC's response to the **political dimension** of its co-operation with Mozambique will be fully in line with the position of the Union, taken as a result of discussions in the Africa Working Group, and bearing in mind the Commission's Communication on Conflict Prevention of April 2001. The EC will, therefore, **contribute to the dialogue** with the Government with particular focus on **constitutional matters** (decentralisation and the electoral process), issues relating to the **rule of law** (human rights and legal sector reform), and **conflict prevention**. In order to bolster the process of reforms in these areas, and to enable shifts in Government policy to be **effectively followed up** in financial terms, the EC will again earmark funding for the judiciary sector to co-finance actions agreed with one or more other donors, under their management.

It has become clear from the preceding section that the EC has a more or less **distinct comparative advantage** in terms of **funding**, of **policy dialogue**, of **past experience**, and of **Mozambique's needs** in the areas of

- **macro-financial support,**
- **transport infrastructure and**
- **food-security and agriculture.**

They further correspond to both the Government's and the Council and Commission's priority areas, as well as potentially addressing three of the key determinants of poverty. The EC will therefore **concentrate its response strategy** for future funding in those three areas, adapting its approach to consolidate and take account of what still needs to be achieved in each sector, and building on our past experience and interventions. Traditionally, macro-financial support and transport infrastructure have been financed from the EDF, and food security and agriculture from budget line funding. However, given the high priority placed on food security and agriculture, there may be a need to allocate EDF resources in the event of a shortfall of the budget line allocation.

The relevance of **macro-economic budgetary support** is justified by the financial need to sustain internal and external financial balances, and by its strong commitment to reduce poverty in the country. By providing direct budgetary support, the EC will continue to contribute to the financing of the overall budget and balance of payments deficits. This will, in turn, contribute to improvements in the country's net external position, whilst allowing external debt obligations to be serviced in a timely manner. The EC's support in this area is **further justified** by the need to: sustain **macro-economic stability**, taking into account potential losses in revenue from trade-related taxes in the context of SADC regional integration; ensure a well-balanced distribution of the **fruits of growth** through efficient budget expenditure allocation which benefits the poor; implement comprehensive and sound public expenditure management reforms which focus on **strengthening financial accountability**, in order to improve economic governance and fight

corruption; and adopt a set of **performance-based indicators** in the PARPA priority sectors, which will allow the impact of macro-economic and sector policies to be evaluated, including in terms of financial and human resource management.

This area of co-operation will also embrace support for **economic integration** at the regional and global level, and contribute to improvements in economic governance through support to the envisaged **public sector reforms** in general, and **public finance management** in particular. Macro-economic support will also facilitate implementation of the HIPC initiative, to which the EC, alongside the MS, has made a major contribution. The possibility of supporting a **multi-donor fund** to improve the level of **salaries** of key officials within the context of the Public Sector Reform could also be considered. Co-financing operations with the BWI and other donors, particularly the MS, could be envisaged here. Macro-economic budgetary support will also be used in support of institutional reforms and capacity-building for sound public finance management, at both central and local levels.

Much still needs to be done in the road sector to reestablish an infrastructure destroyed by years of war and neglect, as well as a policy and capacity to maintain it. This is a long-term process, and a phase of consolidation is now necessary. The EC's **priority interventions** in the road sector would, therefore, be **periodic maintenance, capacity building, a rural roads** component, to be managed by the ANE, linked to the interventions in the area of food security/agriculture, and the **rehabilitation** of a large road section in Zambezia initially planned for 8th EDF funding. As the EC is only too aware of the connection between transport infrastructure works and the spread of HIV/AIDS, specific actions aimed at preventing infection will be included as a matter of course in all interventions in the sector. For this strategy to work, it is important to stress that the **EC's engineering capacity** in Mozambique has been reinforced to be **commensurate** with the size of the programme and the complexity of the policy dialogue.

The EC's interventions in the **food security/agriculture sector** will build on recent successes in terms of policy shifts to embrace the **private sector**, will **extend the coverage** to a greater percentage of the population, and will continue to support the **building of capacity** at central and provincial level. The scope of PROAGRI should be extended as capacity is increasing, and the EC is ready to support a move to a "broader" PROAGRI, consolidating support to institutional capacity in MADER and extending support to all actors involved in the agricultural sector, in line with recent experiences such as sub-contracting private sector services and the promotion of agro-industry. As **low agricultural productivity** is recognised as one of the key determinants of poverty, increasing productivity will continue to be a major objective, but will be coupled with actions to improve **commercialisation of produce**, not only in terms of access to markets, but also with regard to added value. Creating income opportunities will have a **direct effect on household poverty** and dependency, and should contribute to the beginnings of the rural economic growth which is so much needed. EC support should continue to **improve the mechanisms** for budget support, harmonising them as soon as possible with the mechanisms for macro-financial budget support. Open calls for proposals should continue to be jointly prepared with non-State actors and MADER. The issue of **HIV/AIDS** will also be taken into account in all interventions.

In the light of the comments made above in connection with rural development, **no interventions** will be made which encroach into the **social sectors**, in order to avoid increasing, in an unplanned manner, the already heavy burden of recurrent costs and resource allocations of the health and education ministries.

The EC is, however, **all too conscious** of the very high priority accorded to the social sectors in terms of their potential impact on poverty reduction. The EC, however, has **neither**

comparative advantage nor telling past experience in these sectors, particularly in education, where other donors are active and more able to continue acting. Ensuring a sector-wide approach in the social sectors will facilitate the channelling of the significant budgetary support to priority poverty-related activities in these sectors, as outlined in the PARPA.

The **interests of concentration** compel us to streamline our intervention in the health sector, though without creating a gap in terms of **funding**. Total annual health expenditure is estimated to be around \$9 per person, which is low even by the region's standards, and **underlines the need for continued, and expanded donor support** to health. The Medium Term Expenditure Framework for the health sector indicates a likely increase in expenditure of 22.7% by 2005, i.e. from about M\$176.5 to M\$216. This is the most conservative scenario. The **needs will grow** inexorably with the HIV/AIDS epidemic, which is also likely to cause an associated increase in the incidence of tuberculosis. But for the moment, **malaria is still the biggest killer**, and young children are most vulnerable to it. Combating these three communicable diseases, which also afflict many other countries, is an **urgent priority of the Commission** at the highest level. The **real needs** of the sector, especially for pharmaceuticals and other essential medicines, will probably be closer to M\$275 by 2005.

It is, therefore, proposed to support to health and AIDS as a non-focal area under the 9th EDF, by providing **direct financial support to the pooling and procurement mechanism for essential medicines** already in place, and to examine the possibility of **contributing to the AIDS fund** set up by the National Aids Council, to be channelled through **civil society organisations**. The forthcoming intervention in the health sector under the 8th EDF will be designed to complete ongoing infrastructure projects as part of the **exit strategy**, and to **support the development of a SWAP**, with particular emphasis on **capacity building at central and provincial levels**. The mid-term review of this strategy will examine the progress towards the SWAP, bearing in mind the possibility of providing direct budget support if feasible.

With regard to **civil society involvement**, the EC is willing to participate in a dialogue with NSAs and the Government in 2002 to discuss the **implementation of NSA actions within the focal sectors**, building on the positive experience gained in working with NSAs within the food security programme, and replicating the same approach for the rural feeder roads. Progress will be jointly reviewed every year. Such a dialogue must take place within the sector-wide approach, though there is no suggestion that EC support to NSA in focal sectors will sideline the Government. On the contrary, the EC proposed to apply the same system of full co-operation with the Government as used in the food security operations, to stimulate a direct and lasting partnership between Mozambican NSAs and the Government. On the basis of the experience gained within the focal sector dialogue, in order to allow **broad participation** of Mozambican civil society in the process, and in accordance with the Cotonou Agreement, the EC might make funds available for **capacity building** of NSA in order to enhance their potential of playing an adequate role within the focal sectors. A capacity-building programme in this framework will be appraised jointly with the Government and other donors, and preferably result in joint financing of agreed priorities.

In order to better clarify the **respective roles** of the EC administration, and to allow for an expansion of responsibility of NSAs, the EC will **move away** from the direct monitoring of projects, whilst becoming more active in the sector policy dialogue to promote increased NSA involvement. The NSAs, for their part, will undertake to ensure that their project proposals include adequate mechanisms for **financial control, auditing and evaluation** of their operations. The EC will promote dissemination of information, particularly on best practices.

The contribution of the **EIB** in the framework of the Cotonou Agreement will be the provision of **long-term financial resources other than grants**, to assist in **promoting growth in the private sector** and in helping to **mobilise domestic and foreign capital** for this purpose. The support will be in the form of risk capital from the Investment Facility or as loans from EIB's own resources. The extent to which EIB will be able to commit resources will largely depend on the sound **macroeconomic framework and on the business environment**, itself largely determined by the economic policy of the Government. The EC will take appropriate measures to start delivering its support, already approved for 8th EDF funding, to co-finance the Private Sector Development Programme (PODE) through an agreement with the World Bank.

Trade is instrumental, both to promote sustainable growth and to reduce poverty. Important trade negotiations, on both a regional and multilateral level, are now on the agenda. Negotiations on future trade arrangements between the EU and ACP countries (Economic Partnership Agreements or **EPAs**) should start by September 2002 at the latest. Moreover, Mozambique needs to implement the SADC Trade Protocol, and is also engaged in the WTO multilateral trade negotiations. As a complement to its focal sector interventions, the EC will support Mozambique in carrying out negotiations in a regional and multilateral context, and in implementing the accompanying trade policy and structural reforms, and in ensuring **coherence** with other policies. Such negotiations will need to address the dilemma of how further liberalisation can be reconciled with the fact that 19% of government revenues stem from **import duties**.

While, the Government and the Commission have been reducing the **portfolio** of interventions in some sectors under **previous EDFs** and from various **budget lines**, some of them will continue in parallel with the areas for co-operation of this Country Strategy Paper. The implementation of the operations will be coherent with the present strategy in order to converge towards the overall objective of poverty reduction, whilst certain adjustments necessary to the scheduling of 8th EDF operations will be made.

The design of this Strategy has taken account of the interventions of EU **Member States** and **other donors**, in order to ensure a **balanced, complementary and coherent support** to Mozambique's development efforts. The **implementation** of EC support will also take into account the experience of MS and other donors in the selected focal areas, in order to maximise synergies, and increase aid efficiency and impact. The implementation of the Strategy will also encourage **greater participation** by NGOs, economic operators and social partners.

The launching and implementation of the present Strategy will be conditional upon the actual setting up of the Government's own strategy to combat poverty as described in the PARPA. This will be reflected in an effective, institutionalized annual review process which will co-ordinate participation at both central and local level, and will examine progress made in terms of both sectoral policies and global strategy, and make any improvements deemed necessary. Such reviews will specifically examine the Government's commitment to undertake concrete actions aimed at effectively seeking a greater equality in the distribution of the fruits of growth.

This Strategy is, moreover, subject to the provisions of art. 61.2 of the Cotonou Agreement, which implies that budgetary support could be provided against the background of a significant progress in improving management of public expenditure with a view to rendering it more transparent, efficient and reliable; where well-defined macro-economic or sectoral policies, laid down by the partner country and approved by the main donors, have been put into place ; and where government procurement rules are made public and are transparent.

Furthermore, the pursuit of this Strategy is conditional upon the respect by the Government of Mozambique of the essential principles of human rights, democracy and the rule of law defined by Article 9 of the Cotonou Agreement.

In addition to the PARPA review process, the EC-Mozambique Country Strategy will be subject to annual reviews, with an extensive mid-term review taking place in 2003. The mid-term review will particularly examine the key performance indicators given in Annex 3 to assess progress towards PARPA's 2005 targets.

PART B
INDICATIVE PROGRAMME

6. INDICATIVE PROGRAMME

6.1 Introduction

In accordance with the Country Strategy presented in Part A, and in accordance with the provisions of Article 4 of Annex IV to the Cotonou Agreement, the indicative programme has been drawn up on the basis of the intervention framework for the PARPA (PRSP) presented herein together with the indicative commitment and expenditure schedules and a detailed activities chronogramme for all activities during a 2 year rolling period. The entire PARPA intervention framework is presented in Annex 3.

6.2 Financial Instruments

Several financial instruments will be used to finance the EC co-operation with Mozambique. The following is an indication of their mobilisation as presently envisaged.

1. EDF 9, Envelope A (€ 274 million). This envelope is to cover long term development operations within the Country Strategy. The indicative allocation of this envelope to the elements of the strategy is proposed as follows:
 - Transport infrastructure, 25-35%
 - Macro-economic support, 45-55%
 - Food security and agriculture, 0-15%
 - Other programmes (Health and HIV/AIDS, governance and Non-State Actors), 10-15%
2. EDF 9, Envelope B (€55 million). To cover unforeseen needs as indicated in the Cotonou Agreement, Annex IV, Article 3.2 (b).
3. EC budget lines could be used to finance specific operations, in particular for food security within the focal sector food security and agriculture, and for human rights and democratisation. Mozambique has been selected as a focus country for 2002-2004 support from the European Initiative for Democracy and Human Rights. Finance from these instrument will, however, be decided in accordance with the Community's procedures for the budget lines concerned and will depend on availability of funds.

Apart from the above-mentioned financial instruments, of which the A-envelope is the main programmable basis for the Indicative Programme, the 9th EDF also includes the "Investment Facility" as a financing instrument managed by the European Investment Bank (see details in Part A, Chapter 5). The Investment Facility does not form part of the Indicative Programme.

6.3 Focal Sectors

1. Transport Infrastructure: For the duration of the 9th EDF, the EC will continue to support the Government within the framework of the new ROADS III programme, which covers the decade 2001 to 2010. For indicative purposes, 25-35% of funds shall be reserved for this sector.

The major interventions foreseen are : (1) reducing the backlog of periodic maintenance (paved network and unpaved secondary roads). 9th EDF financing for such work - estimated **M€32**, in addition to which **M€6** should be made available in 2002 from previous EDF balances - would be ideally channelled through the Road Fund, albeit with separate bank accounts and audits in an initial phase if an appraisal concludes that the road fund mechanisms are not yet sufficiently secure; (2) capacity building – estimated **M€4** - in the context of the Public Sector Reform, to support the Ministry of Public Works and Housing (MOPH) and the decentralised maintenance systems, particularly in the provinces where EC road investments have been more concentrated (Nampula, Zambezia, Sofala), in performing their institutional role within the new management structure of the road sector; the ANE in strengthening its expertise in management of road maintenance; and the Road Board in managing the Road Fund and in creating transparent

procedures and accountability. (3) rehabilitation of rural roads –approx. **M€9** - to be identified in function of, and to support, the EC's interventions in the area of food security/agriculture, and to be implemented by the ANE and the provinces concerned, in the form of a call for proposals for interventions by non-State actors, namely local private sector and local communities; (4) fund the Namacurra-Alto Ligonha road section in Zambezia province, initially planned for 8th EDF funding (provisional amount **M€40**). Current scheduling of the launching of this road project will not be affected. In addition, specific areas of co-operation within the sector, identified through consultation with civil society organisations, and where they present a clear comparative advantage, will be funded by the sector allocation. Such support will target interventions on AIDS prevention, both in transport corridors and in the context of roads construction.

Two EDF programmes, each with two main components, will be prepared to support the above objectives. Feasibility will be undertaken from late 2001 for a first EDF programme representing **M€42**, intended to fund objectives 1) and 2), of which **M€36 from 9th EDF** and **M€6** previous EDFs, to be disbursed into the Road Fund by mid-2002. Feasibility is at an advanced stage for the preparation of the Namacurra-Alto Ligonha road, and an additional feasibility study should be launched for the rural roads component, such that approval of the financing proposals, for the remaining **M€49**, coincides with the opening of the proposals for the construction of the road section.

The Government's contribution to this sector will be to guarantee the full autonomy of the Road Fund, to increase its financing to the Road Fund, to carry out external annual financial and technical audits of the Fund's activities, and to complete the Integrated Road Sector Strategy. The mid-term review will examine progress in the above issues.

2. Food security and agriculture. For indicative purposes, 0-15% of the envelope may be allocated to this sector, subject to an assessment of funding requirements during the annual review process.

The EC's specific objective is to support the establishment of sustainable food security within a market economy. The major intervention foreseen is, as in the past, a Multi-Annual Food Security Programme, to be prepared for implementation starting in 2003.

6.4 Macroeconomic support

The Community will support the macroeconomic reform programme of the Government. Special attention shall be given to the objective of poverty reduction, particularly with a view to ensuring equitable access to social services. It will also provide support to the reform programme for public finance management and related capacity-building, such as for trade policy reforms. For indicative purposes, 45-55% of the envelope shall be reserved for this type of support.

A big 3-year programme (2003-5) will be prepared for non-targeted budget support. The global envelope and indicative annual allocation will be based on an initial macro-economic framework established by the BWI. The programme will be articulated in two components, the first linked to the satisfactory implementation of the macro-economic programme, the second to the level of the results achieved by the Government in terms of budgetary management, as well as of poverty reduction. Part of the global envelope will be reserved for technical assistance operations. The amount of annual support may be adjusted in function of real needs, budgetary execution, in order to compensate for losses in export earnings, or to provide additional support made necessary by external shocks (such as, for example, political instability in the sub-region accompanied by migratory flows, or lack of financing initially foreseen by other donors.) In this

context, co-financing operations with the international institutions and other donors, particularly MS, could be envisaged, more than likely within the JDG mechanism.

Macroeconomic support shall be delivered under a 3-year programme. Funds shall be disbursed on an annual basis. If an annual disbursement is not realised within the time limits foreseen, the corresponding amount can be transferred to one of the other sectors of co-operation in the Indicative Programme. Such a decision can be taken in the context of the annual review.

The main action to be undertaken by the Government in the context of this Strategy is the effective launching of the PARPA, reflected in an effective, institutionalized annual review process which will coordinate participation at both central and local level, and will examine progress made in terms of both sectoral policies and global strategy, and make any improvements deemed necessary. Such reviews will specifically examine the Government's commitment to undertake concrete actions aimed at effectively seeking a greater equality in the distribution of the fruits of growth.

Furthermore, the Government will develop and adopt a coherent, comprehensive time-bound action plan for improvements in public expenditure management, accountability and related capacity building (to be prepared by end 2001), as well as fiscal policy, reflecting the consolidation of all off-budget accounts into the State budget. The mid-term review of this Strategy will particularly examine progress with the PARPA process, in particular in relation to its annual reviews, and with the implementation of the above mentioned action plan.

In order to ensure support in 2002, before 9th EDF funding becomes available, a bridging programme using M€18 of uncommitted 8th EDF resources will need to be prepared, possibly as part of the above 3-year programme.

6.5 Other programmes

An indicative **10-15%** of the envelope has been reserved for the following purposes :

- **Health and HIV/AIDS** (non-focal sector) : EC support in health and HIV/AIDS will be implemented within the framework of the National Health Strategic Plan and the National Action Plan to fight HIV/AIDS. The objectives for the EC intervention, (chap. 5), require that the 8th and 9th EDF programmes be approved in a co-ordinated sequence. The 8th EDF operation (M€25-30) to complete on-going projects in Zambezia, to continue HIV/AIDS prevention and care of sufferers, and to support institutional strengthening in view of moving towards a SWAP, will be proposed for decision by the end of 2001. The 9th EDF programme (approx. **M€ 25**) - provided that transparent procedures operate and accountability is improved - will support the implementation of a multisectoral approach to HIV/AIDS, as well as budget support mechanisms, such as the pharmaceutical pool, and/or mechanisms being developed as part of SWAP approaches within the Ministry of Health and the National AIDS Council. The 9th EDF programme will more than likely be prepared in 2003, the actual scheduling depending on sector needs and the evolution towards a SWAP. The mid-term review will, therefore, particularly examine the Government's progress in this area.
- **Good governance** (non-focal sector). The preparation of a programme to reinforce the judiciary sector (approx. **M€10**), will be decided upon in the light of the political dialogue between the Government and the EU and of the Government's progress in the development of a global reform strategy for the judiciary sector, and will take account of other donors' interventions. The mid-term review will particularly examine the Government's progress in the development of such a global reform strategy.
- **Support to non-state actors.** Co-operation with NSAs within the focal sectors, EC support to civil society might require a capacity-building programme for Mozambican NSAs

(approx. M€4). Feasibility for its preparation, which should be undertaken jointly with MS, should start in 2003, and should support the self-determination of priorities by the different segments of Mozambican civil society. The Government undertakes to revise annually the progress with implementation of NSA actions within the 2 focal sectors, while the mid-term review will examine, and decide upon, the conclusions of the feasibility for the preparation of the capacity building programme for NSAs.

This CSP will be monitored and evaluated within the framework of the PARPA, in which process the EC intends to play an active and constructive role. The monitoring process aims to follow the progress of poverty reduction programmes; to periodically assess changes in the levels of well-being of the population; to develop mechanisms to ensure information flows. The evaluation process seeks essentially to measure the extent of changes in poverty levels in various population sub-groups. The mid-term review will particularly examine the key performance indicators given in Annex 3 to assess progress towards the PARPA's 2005 targets.

6.6 Results and intermediate indicators at macro and sectoral level

| AREAS OF ACTION | RESULTS INDICATOR (OUTCOME) | CURRENT SITUATION | INDICATIVE TARGET (2005) | SOURCE | INTERMEDIATE INDICATORS (PROCESS) | CURRENT SITUATION | INDICATIVE TARGET (2005) | SOURCE |
|--------------------------------------|---|-----------------------|--------------------------------------|---------------------------------------|--|-------------------|---|---------------|
| GENERAL OBJECTIVES | Prevalence of poverty 60% (2005) and 50% in 2010 | 70% (1997) | 60% (2005) 50% (2010) | MPF INE | | | | |
| | Real GDP growth rate | | 8% per annum 2001-2005 | INE | | | | |
| ROADS | Improvement in coverage and quality of roads, especially in poor areas and those with potential | | Kms of roads in acceptable condition | MOPH | Percentage of poor quality roads Kms of roads linking districts to capitals Kms of roads linking localities to district headquarters | 30% (2001) | <25% (2005) 1,492 kms by 2004 2,200 kms by 2005 | MOPH |
| FOOD SECURITY AND AGRICULTURE | Annual growth in agricultural production | 7.3% (1994-1998) | 8% (2001-2005) | MADER | Number of producers in family sector adopting improved techniques by 2005 | | 460,000 | MADER INE |
| | Increase in production of cereals | 1,471,000 (1999-2000) | 1,725,000 (2003/2004) | MADER | Increase in area under small scale irrigation | | 2,500 hectares by 2005 | MADER DNHA |
| | Increase in production of cashew nuts (tons) | 50,000 | 100,000 | MADER INCAJU | Plants treated against disease Improved saplings | | 21 million by 2005 8 million by 2005 | INCAJU |
| | % of districts suffering from food insecurity (highly or moderately vulnerable) | 38/144 26% (2000) | n.d. | MADER Vulnerability Analysis Group | | | | |

| | | | | | | | | |
|-----------------------------------|---|--------------|--------------------------|------------|--|---------------|------------------|------------|
| MACRO AND FINANCIAL POLICY | Rate of inflation | 5.5% (1999) | 5% per annum (2001-2005) | INE MPF | Budgetary rule of not resorting to issuing money | | | MPF |
| | | | | | Reduction in domestic net financing to 0 by 2005 | | | MPF |
| | Fiscal revenue as % of GDP | 12% (2001) | 15% (2005) | MPF | Coordination between DNIA and Customs Fiscal reforms and new investments in the extraction of mineral resources | | | MPF |
| HEALTH | Child mortality rate | | | INE | | | | |
| | Infant mortality rate | 200 (2000) | <190 (2005) | | % of children <1 with complete vaccinations (DPT3) | 92.5 % (2000) | >90% (2005) | MISAU-SIS |
| | | 147 (1997) | <130 (2005) | | | | | |
| | Maternal mortality rate per 100,000 live births (institutional deliveries) | 175 (2000) | <170 (2005) | MISAU-SIS | Institutional delivery coverage rate | 40.3% (2000) | >46% (2005) | MISAU-SIS |
| | Rate of low birth weight (institutional deliveries) | 12.2% (2000) | <115 (2005) | MISAU-SIS | Inhabitants per health unit- levels I and II | 14,345 (2000) | <11,000 (2005) | MISAU-SIS |
| | Malaria-related mortality rate in children <5 (amongst children in rural hospitals) | 34% (2000) | <18% (2005) | MISAU-SIS | Percentage of households with mosquito nets in priority areas | 70% (2000) | 80% (2005) | MISAU |
| | HIV prevalence rate (estimate) | 16.4% (2001) | 17% | MISAU-CNCS | Number of preventive measures | | 2,310,000 people | MISAU CNCS |
| | Number of people reached by information and sensitization campaigns on HIV/AIDS | | 4 million by 2003 | | Free distribution of condoms for people with HIV | | 4,500,000 people | |

| | | | | | | | | |
|-------------------|---|--|--|-------|--|---------------------|-------------------------------------|---------------|
| GOVERNANCE | Administrative decentralization and extended planning | | | MAE | % of districts covered by participatory planning | 5 districts in 2000 | 75% by 2005 | MAE |
| | Improvement in justice sector services | | | MJUST | Establishment of Labour Tribunals in all provinces by 2005 | None (1999) | 11 by 2005 | MJUST |
| | | | | | Increase in the % of population with ID cards (civil registry) | n.d. (2000) | n.d. (2005) | MJUST, MINT |
| | | | | | % of outstanding cases as a proportion of total cases (criminal and civil) in the courts | 77% (1998) | To be defined in the strategic plan | Supreme Court |

6.7 Indicative Commitment and Disbursement Timetables

(N.B. These tables indicate overprogramming)

| | | Cumulated consumption of commitments | | | | | | | | | |
|--|------------------|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | Indicative total | 2002/1 | 2002/2 | 2003/1 | 2003/2 | 2004/1 | 2004/2 | 2005/1 | 2005/2 | 2006/1 | 2006/2 |
| <u>EDF co-operation programmes</u> | | | | | | | | | | | |
| Transport Focal Sector | 85 -100 | 45* | 45 | 45 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Food Security and Agriculture Focal Sector | (45 FSBL) | | | | | | | | | | |
| Health and AIDS Non- Focal Sector | 25 - 30 | 0 | 0 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| Good governance ** | 10 | 0 | 0 | 0 | 10** | 10 | 10 | 10 | 10 | 10 | 10 |
| TOTAL | 120 -140 | 45 | 45 | 75 | 140 | 140 | 140 | 140 | 140 | 140 | 140 |
| <u>EDF Instruments</u> | | | | | | | | | | | |
| Macroeconomic and Budgetary | | | | | | | | | | | |
| Support | 150* | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 |
| Support to Non-State Actors | 4 | 0 | 0 | 0 | 4* | 4 | 4 | 4 | 4 | 4 | 4 |
| TOTAL | 154 | 150 | 150 | 150 | 154 | 154 | 154 | 154 | 154 | 154 | 154 |
| GRAND TOTAL *** | 274 -294 | 195 | 195 | 225 | 294 | 294 | 294 | 294 | 294 | 294 | 294 |

* Approval of Financing Decision

** If necessary

*** Up to 7% overprogramming

FSBL : Food Security Budget Line (for information only, based on historical average)

| | | Cumulated consumption of payments | | | | | | | | | |
|--|------------------|-----------------------------------|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|
| | Indicative total | 2002 | 2002/2 | 2003/1 | 2003/2 | 2004/1 | 2004/2 | 2005/1 | 2005/2 | 2006/1 | 2006/2 |
| <u>EDF co-operation programmes</u> | | | | | | | | | | | |
| Transport Focal Sector | 85 -100 | 0 | 6 | 7 | 23 | 32 | 56 | 69 | 80 | 90 | 100 |
| Food Security and Agriculture Focal Sector | (45 FSBL) | | | | | | | | | | |
| Health and AIDS Non- Focal Sector | 25 - 30 | 0 | 0 | 0 | 7 | 7 | 14 | 14 | 22 | 22 | 30 |
| Good governance ** | 10 | | | | | 2 | 4 | 6 | 8 | 10 | 10 |
| TOTAL | 120 -140 | 0 | 6 | 7 | 30 | 41 | 74 | 89 | 110 | 122 | 140 |
| <u>EDF Instruments</u> | | | | | | | | | | | |
| Macroeconomic and Budgetary | | | | | | | | | | | |
| Support | 150 | 24 | 24 | 56 | 56 | 108 | 108 | 150 | 150 | 150 | 150 |
| Support to Non-State Actors | 4 | 0 | 0 | 0 | 0 | 2 | 2 | 4 | 4 | 4 | 4 |
| TOTAL | 154 | 24 | 24 | 56 | 56 | 110 | 110 | 154 | 154 | 154 | 154 |
| GRAND TOTAL *** | 274 - 294 | 24 | 30 | 73 | 96 | 151 | 184 | 243 | 264 | 276 | 294 |

** If necessary

*** Up to 7% overprogramming

FSBL : Food Security Budget Line (for information only, based on historical average)

6.8 Activity Pipeline Chronogramme

The following table lists all projects whose preparation needs to be launched in the two years from signature of the CSP and work programme :

| Title | Amounts | Identification | Appraisal | Financing Decision |
|--|----------------------------------|---------------------------------------|--|--|
| Sector : Transport Infrastructure Project 1 : Periodic Maintenance and Capacity Building Project 2: Rural Roads and Namacurra/ Alto Ligonha Road | Up to M€45 Up to M€55 | Late 2001 Ongoing | Early 2002 Additional 2002 | Mid-2002 * Mid-2003 |
| Sector : Food Security and Agriculture Project 1 : Multiannual Food Security Programme | M€45** | Early 2002 | Mid-2002 | Late 2002 |
| Sector : Macro-economic support Project 1 : Poverty Reduction Budget Support Programme | M€150 | Immediate | Immediate | Early 2002 |
| Non-focal sector : Health/HIV-AIDS Project 1 : Support to pooling mechanisms and National Aids Council | Up to M€30 | 2002 | Early 2003 | Mid-2003 |
| Non-focal sector : Good Governance Project 1 : Support to Judiciary Sector | M€10 | Early 2003 | Mid-2003 | Late 2003 |
| Cross-cutting : Project 1 : Support to capacity-building For non-State actors | M€4 | Early 2003 | Mid-2003 | Late 2003 |
| Other (8th EDF) : Project 1 : Poverty Reduction Budget Support Programme Project 2 : Health Sector Support Project 3 : Beira Water Supply Project 4: Nacala Corridor | M€18 M€30 M€14 M€10 | Immediate Done Done Done | Immediate Done Ongoing Early 2002 | Early 2002 Late 2001 Late-2002 Early 2003 |

* In the event of delay, M€6 would have to be disbursed to Road Fund from previous balances

** For information only, based on historical average

Mozambique – European Community

Country Strategy Paper

Annexes

for the period 2001 - 2007

ANNEX 1: Projected Commitments of EC Financial Support to Mozambique in 2001 - 2006 (Million Euro)

| | | | 01 | | 02 | | 03 | | 04 | | 05 | | 06 | | TOTAL | |
|----|---|-----------|----------|-----------|------------|--|------------|----------|----------|----------|----------|----------|----------|----------|------------|--|
| 1. | <u>Transport Infrastructure</u> | | | | | | | | | | | | | | | |
| | 8th EDFs | | 0 | | (6)* | | 10 | | 0 | | 0 | | 0 | | 10 | |
| | 9th EDF | | 0 | | 45 | | 55 | | 0 | | 0 | | 0 | | 100 | |
| | Sub-Total | | | 0 | 45 | | 65 | | 0 | | 0 | | 0 | | 110 | |
| 2. | <u>Macroeconomic and Budget Support</u> | | | | | | | | | | | | | | | |
| | 8th EDFs | | 0 | | 18 | | 0 | | 0 | | 0 | | 0 | | 18 | |
| | 9th EDF | | 0 | 0 | 150 | | | 0 | | 0 | | 0 | | 0 | 150 | |
| | Sub-total | | | 0 | 168 | | | | | | | | | | 168 | |
| 3. | <u>Food Security and Agriculture</u> | | | | | | | | | | | | | | | |
| | Food Security Budget Lines | (Note 1) | 0 | | 45 | | 0 | | 0 | | 0 | | 0 | | 45 | |
| | Sub-Total | | | 0 | 45 | | 0 | | 0 | | 0 | | 0 | | 45 | |
| 4. | <u>Health and AIDS</u> | | | | | | | | | | | | | | | |
| | 8th EDF | | 30 | | 0 | | 0 | | 0 | | 0 | | 0 | | 30 | |
| | 9th EDF | | 0 | | 0 | | 30 | | 0 | | 0 | | 0 | | 30 | |
| | Sub-Total | | | 30 | 0 | | 30 | | 0 | | 0 | | 0 | | 60 | |
| 5. | <u>Good governance</u> | | | | | | | | | | | | | | | |
| | 9th EDF | | 0 | | 0 | | 10 | | 0 | | 0 | | 0 | | 10 | |
| 6. | <u>Water</u> | | | | | | | | | | | | | | | |
| | (8th EDF) | | | 0 | 14 | | 0 | | 0 | | 0 | | 0 | | 14 | |
| 7. | <u>Fisheries</u> | | | | | | | | | | | | | | | |
| | (8th EDF) | | | 0 | 2 | | 0 | | 0 | | 0 | | 0 | | 2 | |
| 8. | <u>NSA</u> | | | | | | | | | | | | | | | |
| | (9th EDF) | | | 0 | 0 | | 4 | | 0 | | 0 | | 0 | | 4 | |
| | TOTAL | | | 30 | 274 | | 109 | | 0 | | 0 | | 0 | | 413 | |

* From 8th EDF only if delay in 9th EDF

| | | | 01 | | 02 | | 03 | | 04 | | 05 | | 06 | | TOTAL | |
|--|-------------------------------------|--|----|-----------|------------|--|------------|--|----------|--|----------|--|----------|--|------------|--|
| | 8th EDF | | 30 | | 34 | | 10 | | 0 | | 0 | | 0 | | 74 | |
| | Food Security Budget Lines (note 1) | | 0 | | 45 | | 0 | | 0 | | 0 | | 0 | | 45 | |
| | 9th EDF | | 0 | | 195 | | 99 | | 0 | | 0 | | 0 | | 294 | |
| | TOTAL | | | 30 | 274 | | 109 | | 0 | | 0 | | 0 | | 413 | |

Note 1: Indicative data based on historical average provided for completeness of the commitment table

ANNEX 2 : Projected Disbursements of EC Financial Support to Mozambique in 2001 - 2006 (Million Euro)

| | | | | 01 | 02 | 03 | 04 | 05 | 06 | TOTAL | |
|----|---|--------------------|--|----|----|----|----|----|----|-------|--|
| 1. | <u>Transport Infrastructure</u> | | | | | | | | | | |
| | Previous EDFs | | | 14 | 20 | 23 | 14 | 11 | 6 | 88 | |
| | 9th EDF | | | 0 | 6 | 17 | 33 | 24 | 20 | 100 | |
| | Sub-Total | | | 14 | 26 | 40 | 47 | 35 | 26 | 188 | |
| 2. | <u>Macroeconomic and Budget Support</u> | | | | | | | | | | |
| | Previous EDFs | | | 65 | 19 | 1 | 0 | 0 | 0 | 85 | |
| | 9th EDF | | | 0 | 24 | 42 | 42 | 42 | 0 | 150 | |
| | Sub-Total | | | 65 | 43 | 43 | 42 | 42 | 0 | 235 | |
| 3. | <u>Food Security</u> | | | | | | | | | | |
| | Food Security B.L. | Previous MAFSP | | 20 | 16 | 0 | 0 | 0 | 0 | 36 | |
| | Food Security B.L. | New MAFSP (Note 1) | | 0 | 0 | 15 | 15 | 15 | 0 | 45 | |
| | <u>Rural Development</u> | | | | | | | | 0 | 0 | |
| | Previous EDFs | | | 2 | 8 | 8 | 7 | 7 | 3 | 35 | |
| | Sub-Total | | | 22 | 24 | 23 | 22 | 22 | 3 | 116 | |
| 4. | <u>Health and AIDS</u> | | | | | | | | | | |
| | Previous EDFs | | | 5 | 14 | 11 | 8 | 7 | 6 | 51 | |
| | 9th EDF | | | 0 | 0 | 7 | 7 | 8 | 8 | 30 | |
| | Sub-Total | | | 5 | 14 | 18 | 15 | 15 | 14 | 81 | |
| 5. | <u>Good governance</u> | | | | | | | | | | |
| | 9th EDF | | | 0 | 0 | 0 | 4 | 4 | 2 | 10 | |
| 6. | <u>Water</u> | | | | | | | | | | |
| | (Previous EDFs) | | | 1 | 6 | 10 | 10 | 7 | 2 | 36 | |
| 7. | <u>Telecommunications</u> | | | | | | | | | | |
| | (Previous EDFs) | | | 0 | 4 | 4 | 3 | 0 | 0 | 11 | |
| 8. | <u>Others</u> | | | | | | | | | | |

| | | | | | | | | | | | | | | | | |
|-----|--|---------|-----------------|------------|----|------------|----|------------|----|------------|----|------------|----|-----------|-----|--------------|
| | Previous EDFs (Private Sector, Fisheries, Culture) | | 2 | | 2 | | 2 | | 2 | | 2 | | 0 | | 11 | |
| | 9th EDF (NSA) | | 0 | | 0 | | 0 | | 2 | | 1 | | 1 | | 4 | |
| | Sub-Total | | | 2 | | 2 | | 2 | | 4 | | 3 | | 1 | | 14 |
| | TOTAL | | | 109 | | 119 | | 140 | | 147 | | 128 | | 48 | | 691 |
| | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | |
| | | | | 01 | | 02 | | 03 | | 04 | | 05 | | 06 | | TOTAL |
| | Previous EDFs | | 89 | | 73 | | 59 | | 44 | | 34 | | 17 | | 316 | (1) |
| | Food Security Budget Lines | (Note1) | 20 | | 16 | | 15 | | 15 | | 15 | | 0 | | 81 | |
| | 9th EDF | | 0 | | 6 | | 66 | | 88 | | 79 | | 31 | | 294 | |
| | TOTAL | | | 109 | | 119 | | 140 | | 147 | | 128 | | 48 | | 691 |
| | | | | | | | | | | | | | | | | |
| (1) | 6th EDF NIP | 15,0 | 7th EDF Em &Ref | 175,0 | | | | | | | | | | | | |
| | 6th EDF RIP | 2,0 | 8th EDF NIP | 11,0 | | | | | | | | | | | | |
| | 7th EDF NIP | 35,0 | 8th EDF RIP | 67,0 | | | | | | | | | | | | |
| | 7th EDF RIP and Ref. | 9,0 | 8th EDF SAF | 2,0 | | | | | | | | | | | | |

Note 1: Indicative data based on historical average provided for completeness of the disbursement table

ANNEX 3 – MONITORING AND EVALUATION INDICATORS OF THE PARPA
1. RESULTS AND INTERMEDIATE INDICATORS AT MACRO AND SECTORAL LEVEL

| AREAS OF ACTION | RESULTS INDICATOR (OUTCOME) | CURRENT SITUATION | INDICATIVE TARGET (2005) | SOURCE | INTERMEDIATE INDICATORS (PROCESS) | CURRENT SITUATION | INDICATIVE TARGET (2005) | SOURCE |
|---------------------------|--|--------------------------|---------------------------|--------------|---|---------------------------------------|---------------------------------------|-----------|
| GENERAL OBJECTIVES | Prevalence of poverty 60% (2005) and 50% in 2010 | 70% (1997) | 60% (2005) 50% (2010) | MPF INE | | | | |
| | Real GDP growth rate | | 8% per annum 2001-2005 | INE | | | | |
| Education | Adult literacy rate (+15) | 40% (1997) | 50% (2005) | INE MINED | Repetition rate (EP1) | 23% (2000) | 19.5% (2005) | MINED |
| | Rural women literacy rate | 15% (1997) | 25% (2005) | INE MINED | Percentage of girls in EP1 | 43% (2000) | 48% (2005) | MINED |
| | Gross rate of enrollment EP1 EP2 | 91% (2000) 23% (2000) | 108% (2005) 36% (2005) | MINED INE | Drop-out rate EP1 Transition rate EP1-EP2 Completion rate EP1 | 8% (1999) 79% (1999) 66% (1999) | 6% (2005) 85% (2005) 72% (2005) | MINED |
| HEALTH | Child mortality rate | 200 (2000) | <190 (2005) | INE | % of children <1 with complete vaccinations (DPT3) | 92.5 % (2000) | >90% (2005) | MISAU-SIS |
| | Infant mortality rate | 147 (1997) | <130 (2005) | | | | | |
| | Maternal mortality rate per 100,000 live births (institutional deliveries) | 175 (2000) | <170 (2005) | MISAU-SIS | Institutional delivery coverage rate | 40.3% (2000) | >46% (2005) | MISAU-SIS |
| | Rate of low birth weight (institutional deliveries) | 12.2% (2000) | <115 (2005) | MISAU-SIS | Inhabitants per health unit- levels I and II | 14,345 (2000) | <11,000 (2005) | MISAU-SIS |

| | | | | | | | | |
|-----------------------------|---|--------------|--------------------------------------|------------|--|--------------------|---|---------------|
| | Malaria-related mortality rate in children <5 (amongst children in rural hospitals) | 34% (2000) | <18% (2005) | MISAU-SIS | Percentage of households with mosquito nets in priority areas | 70% (2000) | 80% (2005) | MISAU |
| | HIV prevalence rate (estimate) Number of people reached by information and sensitization campaigns on HIV/AIDS | 16.4% (2001) | 17% 4 million by 2003 | MISAU-CNCS | Number of preventive measures Free distribution of condoms for people with HIV | | 2,310,000 people 4,500,000 people | MISAU CNCS |
| ROADS | Improvement in coverage and quality of roads, especially in poor areas and those with potential | | Kms of roads in acceptable condition | MOPH | Percentage of poor quality roads Kms of roads linking districts to capitals Kms of roads linking localities to district headquarters | 30% (2001) | <25% (2005) 1,492 kms by 2004 2,200 kms by 2005 | MOPH |
| ENERGY | Increase in population with access to electricity (from various sources) 2000-2005 | | Number of people (?) | MIREME | Additional district headquarters and administrative posts with electricity 5 additional electricity networks installed | Total number today | 42 district headquarters 35 administrative posts | MOPH |
| Water and Sanitation | Population with access to potable water in rural areas | 12% (2000) | 40% (2005) | MOPH | Opening of wells, public fountains and boreholes, 2000-2005 | | Numerical increase | MOPH |
| | Population with access to potable water in urban and peri-urban areas (excluding the large cities) | 44% (2000) | 50% (2005) | MOPH | Rehabilitation and opening of public fountains | | Number in operation | MOPH |

| | | | | | | | | |
|--------------------------------------|---|-----------------------|--------------------------|------------------------------------|--|---------------------|---|---------------|
| Food Security and Agriculture | Annual growth in agricultural production | 7.3% (1994-1998) | 8% (2001-2005) | MADER | Number of producers in family sector adopting improved techniques by 2005 | | 460,000 | MADER INE |
| | Increase in production of cereals | 1,471,000 (1999-2000) | 1,725,000 (2003/2004) | MADER | Increase in area under small scale irrigation | | 2,500 hectares by 2005 | MADER DNHA |
| | Increase in production of cashew nuts (tons) | 50,000 | 100,000 | MADER INCAJU | Plants treated against disease Improved saplings | | 21 million by 2005 8 million by 2005 | INCAJU |
| | % of districts suffering from food insecurity (highly or moderately vulnerable) | 38/144 26% (2000) | n.d. | MADER Vulnerability Analysis Group | | | | |
| Governance | Administrative decentralization and extended planning | | | MAE | % of districts covered by participatory planning | 5 districts in 2000 | 75% by 2005 | MAE |
| | Improvement in justice sector services | | | MJUST | Establishment of Labour Tribunals in all provinces by 2005 | None (1999) | 11 by 2005 | MJUST |
| | | | | | Increase in the % of population with ID cards (civil registry) | n.d. (2000) | n.d. (2005) | MJUST, MINT |
| | | | | | % of outstanding cases as a proportion of total cases (criminal and civil) in the courts | 77% (1998) | To be defined in the strategic plan | Supreme Court |
| Macro and financial Policy | Rate of inflation | 5.5% (1999) | 5% per annum (2001-2005) | INE MPF | Budgetary rule of not resorting to issuing money | | | MPF |
| | | | | | Reduction in domestic net financing to 0 by 2005 | | | MPF |

| | | | | | | | | |
|----------------------|--|------------|------------|-------|--|--|------------------------------------|-------|
| | Fiscal revenue as % of GDP | 12% (2001) | 15% (2005) | MPF | Coordination between DNIA and Customs Fiscal reforms and new investments in the extraction of mineral resources | | | MPF |
| Social Action | Expansion of social protection net | | | MMCAS | Number of children, orphans, single mothers, the elderly, drug addicts and people with no source of income covered by the direct social welfare programmes | | | MMCAS |
| Housing | Increase in access to housing of low-income households | | | MOPH | Urban plots by 2005 Rural plots by 2005 | | 27,000 (2005) 14,000 (2005) | MOPH |

As the indicators included in the PARPA are very weak in the infrastructure sector (only one indicator related to the Transport Sector), the following sector indicators are proposed:

A. User benefits and costs

Access: Road network (km) by class and type of road surface
Railway lines and tracks (length, gauge, electrified/not electrified)
Annual road closures as measured by the number of days that roads of each class are impassable due to weather, other impediments on condition, or long-term degradation of the road.

Mobility: Vehicle fleet in operation and new vehicles registered by type and size
Number of permits (by carrying capacity, area, etc.)
Passenger transport by type of vehicle (taxi, bus, truck)
Traffic (tonnages) broken down by commodity and place of origin and destination
Locomotives (by type, age, type of service)
Wagons (by type, age, cargo capacity, and available capacity)

Coaches (by type, age, capacity, and available seating capacity)

Safety: Motor vehicle accidents by type of vehicle/seriousness of injury
Railway accidents (number of trains and persons involved)
Airplane accidents (number of aircrafts and passengers involved).
Shipping accidents (number of ships and persons involved).

User costs: Vehicle operating costs per km and by type of road surface
Price and cost indices in road transport (fares, vehicle prices, repair costs, fuel prices)

Sector performance

Transport budget:

Road transport finances (revenues and expenses) by type of transport.

Roads: Revenues from duties, fees etc. from road users.
Expenditure on road (construction, development, and maintenance) by road surface type and the responsible authority.

Railway/ports/airports:

Revenue per tonne-km

Cost per tonne-km

Total operating cost, and operating cost per ASK (available seat km)

Total revenue, and revenue per RPK (revenue passenger km).

Total port revenue and cost.

Total lake and river transport revenue and cost.

Road condition: Percentage of road km in good, fair and poor condition broken down by class and type of surface.

Railways/ports/airports: Manpower by category of work and total cost.

Regional integration:

Regional traffic (tonnages and number of containers) broken down by commodity and country of origin and destination.

Offshore movements (tonnages and number of containers) broken down by commodity, showing transit seaport and the SADC country of origin/destination.

Regional transport by type of vehicle and nationality.

Social and Environmental

Roads: Percent of the national population living within the "zone of influence" of roads in good and fair condition.

Average household income of the population living within the "zone of influence" of observed road.

The above selected sector indicators for the transport sector are among the data requirements agreed at SATCC level between the SADC member States. This agreement includes the identification at the relevant ministries of the person responsible to supply the data on a regular basis to SATCC-TU. In Mozambique, MTC and MOPH are responsible for providing the agreed data to the Technical Unit.

The monitoring process will be simplified since the statistician at the Technical Unit can supply the updated data directly from all sub-sectors. The data is disseminated by the statistician and validated before accepted. Corresponding indicators from other SADC member States, collected and disseminated in a similar way, are available for comparison of level of costs, increase in goods and passenger services, number of accidents per km or road/number of vehicles, etc. etc.

ANNEX 4 : MOZAMBIQUE: SELECTED ECONOMIC AND FINANCIAL INDICATORS 1999-2010

| | 1999 | 2000 | 2001 | 2002 | 2005 | 2010 |
|---|--|---------|---------|---------|---------|---------|
| | <i>Annual percentage variation or as otherwise indicated</i> | | | | | |
| National Income and Prices | | | | | | |
| Nominal GDP (in billions of Meticaïs) | 50,827 | 59,187 | 69,667 | 78,875 | 121,724 | 222,719 |
| Nominal GDP (millions of US\$) | 4,005 | 3,887 | 3,752 | 3,947 | 4,887 | 6,408 |
| Real GDP growth | 7.3 | 3.8 | 11.9 | 7.8 | 7.6 | 7.9 |
| GDP Deflator | 2.0 | 12.2 | 5.2 | 5.0 | 5.0 | 5.0 |
| GDP per capita (in USD) | 250 | 240 | 220 | 230 | 270 | 340 |
| GNP per capita (in USD) | 210 | 230 | 200 | 200 | 240 | 290 |
| Real national disposable income per capita | - | 15.8 | 5.4 | -0.2 | 5.8 | 13.7 |
| Real private disposable income/ capita | - | 17.3 | 5.3 | -0.6 | 4.1 | 14.5 |
| | | | | | | |
| External Sector | | | | | | |
| Exports of Goods | - | 25.6 | 120.1 | 2.1 | 11.1 | 26.0 |
| Mega Projects | - | - | 302.5 | 0.4 | 12.2 | 28.4 |
| Others | - | -23.0 | 5.0 | 6.1 | 7.1 | 11.1 |
| Imports of Goods | - | 14.3 | 39.8 | 26.7 | 2.0 | 1.8 |
| Mega Projects | - | -16.7 | 287.2 | 76.7 | -0.5 | -2.1 |
| Others | - | 21.3 | 1.2 | -3.1 | 5.0 | 6.9 |
| | <i>As a percentage of GDP</i> | | | | | |
| Investments and Savings | | | | | | |
| Investment | | | | | | |
| Gross investment | 23.8 | 20.3 | 29.2 | 36.0 | 20.2 | 19.0 |
| Private investment | 14.2 | 8.5 | 15.8 | 24.7 | 8.6 | 7.9 |
| Public investment | 9.6 | 11.9 | 13.5 | 11.3 | 11.6 | 11.1 |
| Savings | | | | | | |
| National Savings | -0.1 | 5.2 | 6.7 | -1.9 | 16.4 | 19.6 |
| Domestic savings | 5.6 | -1.5 | -4.6 | 2.3 | 21.9 | 25.9 |
| Private savings | 6.7 | 0.1 | 8.8 | 4.8 | 20.8 | 22.6 |
| Public savings | -1.1 | -1.7 | -4.2 | -2.5 | 1.0 | 3.3 |
| External savings | 18.2 | 21.9 | 24.7 | 33.7 | -1.7 | -7.0 |
| State Budget | | | | | | |
| Total revenue | 12.3 | 12.6 | 12.2 | 11.1 | 14.6 | 17.0 |
| Total expenditure and net credits | 23.5 | 28.1 | 31.5 | 26.0 | 25.2 | 24.8 |
| Overall balance before grants | -11.3 | -15.8 | -19.3 | 13.9 | -10.6 | -7.8 |
| Grants | 7.2 | 10.9 | 12.3 | 10.8 | 8.2 | 6.2 |
| Overall balance after grants | -4.0 | -4.6 | -7.0 | -3.1 | -2.4 | -1.6 |
| Primary domestic balance | -3.1 | -6.5 | -8.1 | -4.2 | -3.2 | -2.2 |
| Domestic banking finance | 0.2 | 1.1 | 1.9 | -1.1 | 0.0 | 0.0 |
| External Sector | | | | | | |
| Current account balance before grants | -34.8 | -26.2 | -34.8 | -48.6 | -12.0 | -5.6 |
| Current account balance after grants | -23.9 | -15.1 | -22.6 | -37.8 | -3.9 | 0.6 |
| Medium and long term capital balance | 22.5 | 1.3 | 11.2 | 28.6 | -1.4 | -3.4 |
| Net external credits | 13.5 | -1.9 | 2.0 | 10.5 | -3.4 | -4.9 |
| External credits | 18.5 | 7.1 | 11.6 | 19.7 | 5.1 | 2.9 |
| Public | 4.9 | 3.1 | 5.1 | 5.1 | 3.1 | 2.3 |
| Private | 13.6 | 4.0 | 6.5 | 14.6 | 2.1 | 0.5 |
| Amortisation | -5.0 | -9.0 | -9.6 | -9.2 | -8.5 | -7.7 |
| Direct investment (net) | 9.1 | 3.2 | 9.2 | 18.1 | 2.0 | 1.5 |
| Overall Balance of balance of payments | -6.1 | -10.1 | -13.0 | -8.9 | -5.0 | -2.6 |
| | <i>In millions of USD or as otherwise indicated</i> | | | | | |
| Balance on current transactions before grants | -1391.8 | -1017.3 | -1305.2 | -1918.1 | -588.5 | -361.4 |
| Balance on current transactions after grants | -957.7 | -588.0 | -846.6 | -1493.1 | -188.5 | 38.6 |
| Medium and long term capital balance | 901.9 | 50.0 | 421.8 | 1128.4 | -66.6 | -217.4 |
| Overall Balance of balance of payments | -242.5 | -390.9 | -487.7 | -352.2 | -242.6 | -166.3 |

| | | | | | | |
|--|-------|-------|-------|-------|-------|--------|
| Gross international reserves | 669.3 | 745.4 | 679.9 | 727.3 | 972.8 | 1235.6 |
| Goods and non-factor services imports (months) | 7.3 | 6.9 | 4.6 | 4.0 | 5.1 | 4.8 |
| Ratio of public foreign debt service after additional expected forgiveness (1) | 18.3 | 5.8 | 5.8 | 7.9 | 2.8 | 2 |

1/ As a percentage of exports of non-factor goods and services.

ANNEX 5 : ON-GOING EC CO-OPERATION

List of on-going projects

| <u>Title</u> | <u>Amount</u> | <u>Status</u> |
|---|--------------------------|--|
| General Import Programme GIP III | M€81.3 (8EDF) | Approved in 1998, completely disbursed |
| Poverty Reduction Budget Support I | M€65.7 (8EDF) | Approved 12/2000 for implementation 2001 |
| Zambezia Rural Health System | M€26 (7EDF) | Feasibility for Phase II June 2001 Rehabilitation project |
| STD/HIV/AIDS | M€5.5 (7 EDF) | Feasibility further phase 2001 |
| Rural Development Programme | M€30 (8 EDF) | Still to be launched |
| Microprojects programme | M€4.8 (8EDF) | |
| NGO Co-financing | M€8.7 budget line | Allocated during 2000 |
| Emergency opening of roads in Sofala and Zambezia | M€42 (7EDF) | Completed – to be closed |
| Beira-Inchope road | M€21.5 (7EDF) | Launched in 2000 |
| Nampula-Nacala Road | M€36.6 (8EDF) | Works will start in 2001 |
| Limpopo railway | M€10 (7EDF) | Phasing out |
| Post-flood reconstruction in <i>Gaza Province</i> | <i>M€ 20 (8EDF)</i> | <i>Underway</i> |
| Food Security (multiannual programme) | M€45 (FSBL) | Ongoing 2000-2002 |
| Humanitarian aid for flood relief | M€10 ECHO M€2.84 ECHO | In 2000 In 2001 |

Annex 6: Country Donor Matrix for Mozambique

Annual Average Grant Disbursements by Donor and Sector (1998-2001*; in milion Euro)

| Declared Level of Focus | National Development Strategy - Key Areas of the PARPA | | | | | | | | | | | | | | | | | |
|-------------------------|--|--------|---------------------|--|-------|----------------------|----------|---------|-------|-------------------------------|--------------------------|--------|-----------|--------|----------|-------|----------|-------|
| | 1. Macroeconomic, Financial and Trade Policies | | | 2. Good Governance, Legality & Justice | | 3. Human Development | | | | 4. Productive sector activity | | | | | | | | |
| | Macroecon. (incl. Budget Support) | | Financial and Trade | | | Education | | Health | | HIV/AIDS (**) | Agriculture & Rural Dev. | | Transport | | Energy | | Water | |
| High Focus | EC | (37,9) | Sweden | Sweden | (7,1) | NL | (12,1) | UK | (7,9) | UK | EC | (18,8) | EC | (11,9) | Norway | (7,2) | NL | (9,2) |
| | UK | (24,2) | IMF | Italy | (7,0) | Sweden | (6,2) | Norway | (7,4) | USA | USA | (9,0) | USA | (8,7) | DK | (6,8) | Switz. | (3,9) |
| | Netherlands | (15,4) | | Norway | (5,9) | Portugal | (5,7) | CH | (6,9) | EC | Germany | (6,6) | Sweden | (7,5) | Germany | (2,4) | France | (1,5) |
| | Sweden | (11,4) | | EC | (5,6) | Finland | (4,0) | USA | (6,7) | Ireland | Italy | (5,0) | NL | (0,8) | WB | | Austria | (0,6) |
| | Norway | (9,4) | | Denmark | (5,3) | Canada | (3,2) | NL | (4,9) | DK | Sweden | (3,9) | | | | | WB | |
| | Denmark | (8,4) | | USA | (3,5) | Ireland | (2,3) | EC | (4,2) | France | France | (3,8) | | | | | | |
| | Switzerland | (2,5) | | NL | (3,1) | UK | (2,1) | Finland | (3,2) | Germany | Denmark | (3,4) | | | | | | |
| | Ireland | (2,2) | | Switz. | (1,3) | DK | (2,0) | Spain | (2,7) | WB | UK | (3,1) | | | | | | |
| | IMF | | | Spain | (1,2) | France | (1,9) | Italy | (2,3) | | Ireland | (3,0) | | | | | | |
| | WB | | | Austria | (1,0) | Spain | (1,8) | Ireland | (2,2) | | NL | (2,4) | | | | | | |
| | | | | Ireland | (1,0) | Germany | (1,5) | France | (1,3) | | Spain | (2,1) | | | | | | |
| | | | | Finland | (0,7) | WB | | Germany | (1,0) | | Portugal | (2,0) | | | | | | |
| | | | | UK | (0,2) | | | WB | | | Austria | (0,7) | | | | | | |
| | | | | IMF | | | | | | | WB | | | | | | | |
| | | | | WB | | | | | | | | | | | | | | |
| Medium Focus | Germany | (6,1) | Germany | Germany | (1,3) | Italy | (1,2) | DK | (2,1) | Norway | CH | (2,3) | Germany | (7,5) | Sweden | (2,1) | EC | (1,0) |
| | Canada | (0,4) | UK | Canada | (0,6) | EC | (0,4) | | | CH | Finland | (0,5) | France | (2,0) | France | (0,7) | Canada | (0,5) |
| | USA | | USAID | France | | IMF | | | | NL | NL | | UK | (1,7) | | | Ireland | (0,3) |
| | | | | | | | | | | Italy | IMF | | Canada | (1,1) | | | Portugal | (0,4) |
| | | | | | | | | | | Sweden | | | | | | | | |
| Less Focus | | | EC | Portugal | (0,6) | | | Canada | (0,6) | Finland | Norway (1,1) | | | | | | | |
| | | | | | | | | Sweden | | IMF | | | Portugal | (1,4) | Portugal | | Italy | (2,2) |
| | | | | | | | | IMF | | | | | Ireland | (0,5) | IMF | | Germany | (0,9) |
| | | | | | | | | | | | | | IMF | | | | UK | (0,7) |
| | | | | | | | | | | | | | | | | | DK | (0,4) |
| | | | | | | | | | | | | | | | | | Sweden | |
| | | | | | | | | | | | | | | | | | IMF | |
| | | | France | (1,0) | | | Portugal | (0,9) | | | | | Italy | (1,1) | | | Spain | (0,1) |
| | | | | | | | | | | | | | Norway | (0,7) | | | | |
| TOTAL | | 117,9 | | | 46,4 | | 44,0 | | 54,3 | | | 67,7 | | 44,9 | | 19,2 | | 21,7 |

Source: Donors

Bold : no disbursements, but interest expressed

Italics ; no interest expressed, but disbursements For 2001 : forecast expenditure

(**) Disbursements included under 'Health'

Annex 7 . National policy and policy implementation in the Focal Sectors

1. Macro-economic budgetary support

The public administration comprises two levels, central and provincial (11) governments. The Ministry of Planning and Finance (MPF) is responsible for public expenditure management. Central line ministries receive public funds paid directly from the Central Treasury account(s) to their Financial Department (DAF). Funding for all expenditure at provincial level and below is channelled through the Provincial Departments of Planning and Finance (DPPF).

Funds for salaries are released monthly by cheque either to the Central Bank (BdM) or the line ministries' own bank accounts. The "duodecimal" system for recurrent non-salary expenditure operates as an imprest account. MPF keeps 10% of the annual provision as a reserve, and divides the remainder by 12. Two-twelfths of the wage bill are advanced at the beginning of each year, and are treated as an annual standing imprest or float. At the end of each month, line ministries present their accounts to MPF and are reimbursed the previous month's expenditures. At the end of the year, outstanding imprests are closed, and any original balances repaid to MPF.

The investment budget is released under the same system, though subsequent reimbursements are not rigidly tied to 1/12 of the budget. The central Treasury account is with BdM, and accounts of line ministries and provincial governments are at commercial banks. Each line ministry has both non-salary recurrent and investment accounts.

The main State institutions responsible for financial audit are the Inspeção Geral de Finanças (IGF), internal audit and inspection section of the MPF; and a section of the Tribunal Administrativo (TA), part of the High Court, which submits its audit reports to Parliament.

Co-ordination between GoM and donors in the area of public finance management is quite good, taking place every three months in the context of the Budget Working Group. Eight countries (B, DK, SWE, NL, SWITZ, UK, NOR, IRL) and the EC have joined, within the framework of a Joint Macro-Financial Aid Programme, to provide direct support to the Govt, regulated by a general framework agreement signed in November 2000. The objective of the Programme is to contribute to poverty reduction as outlined in the PARPA and other strategic documents such as the Poverty Reduction and Growth Facility (PRGF), the Medium Term Fiscal Framework (MTFF), the Economic and Social Plan (ESP) and the State Budget. Its implementation is based on a permanent policy dialogue with the Government, as well as on an annual donor review.

To effectively address its paramount objective of poverty reduction, the Government has developed, in consultation with all stakeholders, a strategy and action plan (PARPA), in which there has been considerable progress in integrating various sector strategies and policies aimed at poverty reduction. The process of integration of various planning instruments and multi-annual budgeting based on financial costing has been initiated. The PARPA is a useful framework for donor co-ordination to support policy dialogue on economic and social reforms, and resource mobilisation and financial management. It details GoM's intentions to allocate increased public resources to priority poverty sectors, which will be facilitated by funds available through HIPC, from the BWI, and from the Joint Programme.

The key issue is the likely impact of the PARPA on poverty and the poor. At this stage, the PARPA remains largely focused on public expenditure and service delivery, with no clear growth strategy. It is likely to have an impact on the social sectors, agriculture and rural development and other key sectors of public expenditure, though efficient management is a prerequisite. The MTFF has, therefore, to be improved. However, as long as the PARPA remains primarily a public sector budgeting instrument, its impact on poverty in the long term will be reduced. The development of a comprehensive growth strategy should be the next step to improve the PARPA in order to make poverty reduction a sustainable process.

Domestic Resources Mobilisation.

The composition of government revenue and budget deficit financing have evolved thus:

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------------------|------|------|------|------|------|------|------|------|------|------|
| Tax and non-tax revenue | 51% | 49% | 52% | 48% | 43% | 41% | 46% | 48% | 52% | 58% |
| Grants | 34% | 40% | 37% | 46% | 36% | 38% | 39% | 38% | 35% | 33% |
| External borrowing | 20% | 25% | 21% | 7% | 9% | 11% | 8% | 13% | 12% | 8% |
| HIPC | - | - | 0% | 0% | 4% | 2% | 2% | 1% | 1% | 1% |
| Domestic borrowing | -6% | -14% | -10% | -1% | 9% | 7% | 5% | 0% | 0% | 0% |

Source: Direcção Nacional do Plano e Finanças (DNPO)

This picture, however, is not complete, as a large portion of the external assistance does not pass through the Central Treasury account at BdM, but is paid directly by donors from overseas accounts or through accounts in commercial banks. Domestic revenue as a percentage of GDP is rather low, although there has been some positive evolution over the last five years.

Domestic Revenue in percentage of GDP

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|------|------|------|------|------|------|------|------|------|------|
| 10.6 | 11.5 | 11.7 | 12.3 | 12.7 | 12.3 | 13.2 | 13.7 | 14.4 | 15.1 |

Two years after its introduction, VAT has become the main source of tax revenue, together with those on beer, tobacco and fuel. Import duty remains an important and stable revenue source, whilst income taxes over the years have actually decreased as a proportion of GDP. Though municipalities and other local entities granted financial and administrative autonomy have some limited taxation powers, they fundamentally depend on central funding.

Public Finance Management

In recent years, significant progress has been made in improving the budget process. In response to a series of weaknesses in the area of public finance management, GoM launched in 1997 an Expenditure Management Reform Strategy (EMRS) initiative. A new Budget Framework Law was passed in July 1997 and was applied for the first time in the preparation of the 1998 budget. It calls for presenting a comprehensive, unified budget in accordance with standard classification along institutional, economic, functional and territorial lines. Simultaneously, DNPO started work on formulating a Medium Term Fiscal Framework (MTFF). Reforms were also introduced in the National Directorate of the Treasury (DNT) with the support of the EC and the National Directorate of Public Accounting.

Notwithstanding this progress, significant weaknesses still remain, which could undermine the implementation and success of the PARPA. The issues identified are:

- Incomplete Coverage of the Budget: The fact that more than 50% of public expenditure is “off-budget” makes it difficult to simultaneously achieve the objective of comprehensive planning and a clear link between budget expenditure and the priorities in the PARPA. The main sources of “off-budget” expenditure relate to donor financing of specific programmes and projects, user fees and earmarked revenues.
- Non-transparent budget structure: The level of breakdown of the budget and the system of classifiers used make it extremely difficult to analyse expenditure in terms of consistency with poverty reduction objectives. In particular, the functional classification does not break down budget expenditure by sub-groups (i.e. primary education, basic health services, etc.).
- Weak budget execution: Low and erratic levels of execution are due to temporary cash flow problems in the Treasury, delays in financial reporting by provinces or sectors, delays in processing revenue receipts and acquittals of advances;
- Poor performance monitoring and reporting system: Internal financial control and audit are still very weak. Reports on outputs and outcomes are dispersed and often bear no clear reference to spending policies and objectives.

In 2000, notable improvements were the regular publication of quarterly budget execution reports according to the existing classifiers, and the closure of the State Account for 1998.

GOVERNMENT POLICY AND TARGETS

The main budgetary expenditure under the PARPA focuses on the priority sectors.

Projected Medium Term Budget Expenditure in the PARPA 2001-2005 percentages
expressed in constant 2001 prices

| Projected Available Resources | 2001 in % | 2002 in % | 2003 in % | 2004 in % | 2005 in % |
|---|--------------|--------------|--------------|--------------|--------------|
| Priority Areas | 69.1 | 72.4 | 74.0 | 75.3 | 74.9 |
| Education | 24.1 | 20.7 | 21.3 | 21.4 | 21.5 |
| Health | 11.7 | 13.6 | 14.4 | 14.7 | 14.9 |
| Infrastructures | 20.2 | 22.4 | 21.5 | 21.8 | 20.7 |
| Agriculture and Rural Development | 3.9 | 4.7 | 5.0 | 5.1 | 5.1 |
| Good Governance, legality and justice | 8.1 | 9.1 | 9.7 | 10.1 | 10.4 |
| Other priority areas | 1.2 | 1.8 | 2.1 | 2.2 | 2.3 |
| Other Sectors | 30.9 | 27.6 | 26.0 | 24.7 | 25.1 |
| Total Projected Expenditure (109^MT of 2001) | 17704 | 17081 | 18008 | 19936 | 20967 |

GoM's commitment to increase resource allocation to the PARPA priority sectors is reflected in a rise in total programmed expenditure from 69.1% in 2001 to 74.9% in 2005. There is a real risk of these commitments not being met, nor tracked at central level, unless current weaknesses in “off-budget” expenditures are effectively addressed through improvements in budgetary coverage. This also implies greater efforts by donors to deliver on their commitments.

The main components of the fiscal and public expenditure policies under the PARPA are: *Mobilisation of budgetary resources. The main objectives, to increase domestic revenue to about 15% of GDP by 2005 and to 16%-17% of GDP by 2010, will be achieved by tax*

reforms aimed at creating a more efficient, broad-based, fairer and predictable tax system, strengthening institutional capacity and efficiency of the tax administration. Key measures to be taken include:

- Widening the tax base by strengthening administrative capacity and reforming the control system to deal with tax exemptions and evasion, as well by reforming tax incentives.
- Restructuring the tax administration, possibly creating a more autonomous revenue authority over the next 3-5 years. Action plan to be developed during 2001.
- Ensuring greater co-ordination and sharing of information between the tax administration and customs, including the introduction of a computerised management information system.
- Analysing the current tax code to identify the need for further improvements, taking into account reforms of tax policy already envisaged.
- Ensuring maximum revenues from investment in natural resource extraction, particularly non-renewable resources, which will not benefit from the Industrial Tax Free Zone status.

Management of public expenditure. Main objectives are to improve the budget process, including programming, budgeting, execution, control and transparency, to ensure that public expenditure is more efficient in contributing to poverty reduction and to the creation of favourable conditions for economic growth; consolidate the role of the MTFF as an effective and sustainable instrument for annual budget programming. This should be strictly linked to the PF and the overall objectives of the PARPA and its whole review process, and monitor efforts made in the area of deconcentration and decentralisation of public administration. Key measures are :

- Reinforce public accounting, including: completion and implementation of the new law on public financial administration; development of computerised information systems; a more effective and timely financial control of expenditure, particularly in the PARPA priority sectors; changes in budget classifications to allow for registration and control of expenditure not only at central, provincial and sectoral levels, but also in terms of main programmes; improvements in auditing and inspection of public accounts; and recruitment and training of personnel. A comprehensive action plan is to be finalised by the end of 2001, taking into account various assessments carried out with donor assistance thus far, including Joint Donor Assessment and World Bank's Country Financial and Accountability Assessment (CFAA).
- Develop an action plan with a view to identifying all domestic sources of revenue and related expenditure currently kept "off-budget", and measures and mechanisms to facilitate their integration into the budgetary process by mid-2002. An action plan will be also produced by end 2001 with a view to identifying measures to be taken by GoM and donors so as to allow the incorporation of "off-budget" financing.
- Begin the process of preparing and carrying out annual expenditure reviews in priority sectors, i.e. health, education, roads, water, justice, tribunals and public safety and public administration. The reviews will identify sectoral expenditure, geographical and priority programmes expenditure with a view to tracking the flow of resources from central level to point of service delivery. They will also allow for

more effective use of policy measures and instruments to improve the efficiency and effectiveness of public expenditure. Given the limitations in terms of institutional capacity, such reviews will be carried out initially in one to two sectors per year.

Management of Public Debt. Main objectives are to develop a medium and long-term strategy for the management of both domestic and external public debt; and strengthen the control and management system of the public debt. Key measures include :

- Preparation of a medium and long-term strategy laying down overall parameters of a policy on new debt and sustainability of external public debt after the HIPC initiative.
- Preparation of a medium to long-term strategy on the capacity to incur new debt and the sustainability of domestic debt. This study must examine the existence of public debt bonds, whose issue has to be in line with actions aimed at reducing domestic interest rates, so as to stimulate the economy and economic growth.

Monitoring and evaluation will be based on : MTFF (Annual); Balance of the PARPA (Quarterly, Annual); Balance of the Economic and Social Plans (Quarterly); Budget Execution Report (Quarterly); Audits of the State Accounts (Annual).

LESSONS LEARNED, CONSTRAINTS AND CHALLENGES

Progress in the implementation of fiscal policy and the Expenditure Management Reform Strategy has been uneven, and the benefit from successful reform of some elements of the broader system is counterbalanced by weak reform co-ordination among different components. The main challenge for the MPF is to define a shared vision for the future of the overall system of planning, budgeting, budget execution, financial control, and performance monitoring. The determination of the MPF and GoM to modernise its financial management is reflected in the creation, in March 2001, of a Technical Unit for the Reform of Public Financial Administration (UTRAF), answering directly to the Minister. Another important issue is the lack of human resources, particularly in line ministries and local administration. Last but not least, financial sector issues which are inadequately addressed can seriously affect fiscal consolidation and the capacity of the Government to implement its poverty reduction strategy.

2. The Transport Sector¹

Mozambique covers an area of 799 380 km² (larger than GB and France combined), and has a 2.515 km coastline. With an average altitude of 360 m, it is relatively flat, with three distinct geographical regions.

The main transport system (ports and three railway-lines) was originally conceived as a series of transit corridors in an east-west direction to the neighbouring landlocked countries. The system became an important economic factor, generating a net surplus of M\$ 110 in 1973. Ten years later, after independence, this surplus had declined by more than 70%. The commercially motivated investments in the transit corridors, supported by SATCC/ SADC, have, however, led to relative neglect of an infrastructure to serve the needs of the domestic transport network. The ports and the railway lines play an important role, but do not constitute the backbone of a transport network that ties the nation together. This is partly due to a poorly developed and poorly-functioning coastal

¹ Integrated Road Sector Strategy for Mozambique (Draft final report, January 2001)
Project Implementation Plan Phase 1 (Draft, April 2001)
Other GOM publications

shipping system. The only modes of transport that provide a truly national network are the roads and the domestic air transport system. The major part of the domestic transport in Mozambique is done by road.

The rehabilitation of the main national roads has made it possible for long-distance commercial truck operators to establish regular services connecting the major cities and industrial centres. Buses carry out almost all public passenger transports, even though a few railway lines have a regular service. Interurban transport for passengers is operated mainly by companies with concessions for specific routes, and obliged to provide specified services. A great number of unregulated pick-ups and trucks offer passenger services.

The classified road network, primary, secondary and tertiary roads, consists of 25.268 km of roads. In addition there are approximately 2.500 km of urban roads and over 1.000 km of unclassified roads. Of the classified roads 5.004 km are paved, and the remaining 20.264 km are unpaved (see below).

Table 1.1 Road Network Status (2000)

| Class | Surface | Good | Fair | Poor | Total |
|-----------------|----------------|--------------|--------------|--------------|---------------|
| Primary | Paved | 1.314 | 1.172 | 551 | 3.037 |
| | Unpaved | 217 | 525 | 496 | 1.238 |
| Secondary | Paved | 735 | 784 | 449 | 1.968 |
| | Unpaved | 1.365 | 2.400 | 2.147 | 5.913 |
| <u>Regional</u> | <u>Unpaved</u> | <u>2.729</u> | <u>3.208</u> | <u>7.176</u> | <u>13.113</u> |
| Total | Paved | 2.049 | 1.956 | 1.000 | 5.004 |
| | <u>Unpaved</u> | <u>4.312</u> | <u>6.133</u> | <u>9.819</u> | <u>20.263</u> |
| | Total | 6.360 | 8.089 | 10.819 | 25.268 |

The railway system is geographically divided into South, Central and North regions, as follows:

Table 1.2 Railway Lines (Dec. 2000)

| Line | Length |
|---|---------------|
| Ressano Garcia line (Maputo - South Africa) | 88 km |
| Goba line (Maputo - Swaziland) | 74 km |
| Chicualacuala line (Maputo - Zimbabwe) | 520 km |
| Machipanda line (Beira - Zimbabwe) | 318 km |
| Sena line (Beira [Dondo] - Malawi) | 577 km |
| Nacala line (Nacala - Malawi) | 610 km |
| Lichinga line (Cuamba - Lichinga) | <u>262 km</u> |
| Total track length | 2.449 km |

In 2000, the railways transported 604,8 million ton-km of freight, which represents a decline of 16.1% in relation to 1999. Transit freight reached 531,4 million ton-km, 87,9% of total freight in 2000. Furthermore, a total of 129,8 million passenger-km were carried, 24,5 % less than 1999. This corresponds to 2.894,9 million passengers transported in 2000, as against 3.843 million in 1999. A profit of 162.085,6 million MZM was booked in 2000, 101,7% more than 1999.

In 2000, the three principal ports (Maputo, Beira and Nacala) and two secondary ports (Quelimane and Pemba) handled a total cargo of 6.117 tonnes from 1.200 ships. Transit traffic is mainly to/from Zimbabwe (48%) and South Africa (34%).

The five international airports and fourteen principal airports are managed by ADM, "Aeroportos de Moçambique". The statistics point to a much lower volume of air traffic than the minimum necessary for efficient infrastructure and operations. 650.000 passengers and 7.000 tons of freight passed through the airports in 1999, with the bulk originating in the domestic and regional markets. With an average growth rate of 14% for the past three years, three international airports (Maputo, Beira and Nampula) handle 80% of traffic. Maputo alone handled 400.000 passengers in 1999. The domestic network is mainly operated by LAM, "Linhas Aéreas de Moçambique", which was transformed into a limited liability company in 1998, as a first step towards privatisation. There are also a number of local airlines which operate scheduled and unscheduled services.

GOVERNMENT POLICY AND STRATEGY

The current transport policy, approved in 1996, identifies as a priority the involvement of the private sector in construction and rehabilitation of transport infrastructure, in the management by contract or concession of the ports, railways and airports, and in the companies involved in air services and shipping. GOM retains the role of facilitator, responsible for defining policies and creating an environment conducive to investment, as well as being responsible for the establishment of regulations, the licensing of transport activities, and supervision and control. The Ministry of Transport and Communications (MTC) is responsible for new transport policies, as well as for monitoring the efficiency of the sector and the implementation of these policies by specialized institutes and by private operators. The implementation of the new transport policy and the rapidly increasing number of concessions of ports, railways, airports etc., has raised the issue of economic regulation. GOM's policy is to establish an efficient system of economic regulation to protect the interests of the stakeholders, public and private.

Coastal shipping and air transport are to be liberalised gradually, so as to reduce the costs of domestic and international trade. Regulations for the Maritime Law (lei do Mar) of 1997 have been completed and adopted to facilitate entry into, and increase the capacity of, coastal shipping. A decree promulgated in 1998 lays the framework for competition in, and entry into, domestic air routes. While all other routes are now open to entry, LAM has exclusive rights to serve the national trunk route until 2003, after which the route will be open to competition. A strategic private partner is being sought for LAM, which was converted to a limited liability company in December 1998.

GoM's road sector strategy continues the development and reform initiated by two Roads and Coastal Shipping Projects, implemented with the support of the World Bank and other donors. The substantial improvements in rehabilitating nearly half of classified roads, increasing the percentage of roads in good or fair condition from 10% to 55%, and decreasing impassable roads to only 8% of the network, have promoted mobility and provided enhanced access to all regions, bringing benefits to agriculture and contributing to the resurgence of economic growth. GoM will now launch the Roads and Bridges Management and Maintenance programme (Roads III), a main component of the 10-year multi-donor Road Sector Development Programme (2001-10).

An important component of GoM's roads policy is the implementation of institutional reforms to ensure sound, sustainable and commercial management of road infrastructure. To that end a new Road Management system was established in law, including the creation of an autonomous entity to manage the country's roads, the National Roads Administration (ANE). Substantial institutional strengthening was a prominent element of the ROCS Projects. At the same time, substantial efforts were made to enhance private contributions to the road sector by involving the private sector in decision-making, initiating the privatisation of public works organisations, and strengthening local contractors and consultants. ROADS III will build upon the progress made.

The development of the road network should contribute to national integration, ensuring economic and personal mobility; provide direct access to zones with existing or latent production potential to stimulate growth; and reach areas of the country where the road network has been neglected, to promote greater regional balance. This will be achieved in a sustainable manner, ensuring that road user charges provide the funding required to maintain all rehabilitated roads.

GoM will implement a second phase of reform as part of Roads III, aiming at separating the funding and planning functions currently undertaken by ANE Directorates. The Road Fund will be established as an autonomous legal entity, governed by a representative board of directors and managed by a professional administration. In addition, measures will be taken to ensure that revenues intended for road maintenance will come from road-user charges, and flow fully and directly into the Fund. Finally, the second-phase reforms will build on the efforts already made to decentralise decision-making in the road sector by strengthening capacity and public involvement at the provincial level, in order to create greater transparency, improve financial management, establish a clearer allocation of responsibilities in road management, and guarantee the steady and regular flow of funds.

GoM is also committed to systematically addressing the social objectives that accompany effective road network development, i.e. greater attention to road safety, to be addressed through more effective road signalling and systematic identification of accident causes; protection of the environment through explicit consideration of environmental impact; continuation of the ongoing efforts to promote the role of women in the sector; incorporation of HIV/AIDS campaigns directed at road workers and populations living in areas undergoing road works.

RESPONSE OF THE TRANSPORT POLICY AND STRATEGY TO DEVELOPMENT OBJECTIVES

The specific project objectives are to (a) improve the coverage and quality of roads and bridges; (b) improve road transport safety; (c) strengthen the country's capacity to manage and administer the road sector effectively and transparently, with sustainable and efficient institutional arrangement; and (d) establish financing mechanisms to ensure sufficient, timely, stable and secure flow of funds for roads maintenance. Secondary objectives are to incorporate HIV/AIDS prevention activities and increase female employment.

The proposed programme strongly supports the objectives of promoting economic growth to reduce poverty and improve well-being. The PARPA explicitly identifies investment in infrastructure as the single most efficient contribution to long-term growth and improved well-being. The programme will address the above goals in several ways. It will help create economic opportunities by improving rural access to markets and services (particularly of densely populated and high agricultural potential areas), improving traders' access to neighbouring countries, and maintaining the principal national and coastal links to promote tourism and national unity. It will also support efforts to rehabilitate and maintain feeder roads serving the rural poor. It will help increase human

capacity by supporting activities to prevent the spread of AIDS and to reduce injuries and deaths due to traffic accidents, and promote gender equality by encouraging the employment of women in the roads sector at all levels and in all capacities, and increasing female access to transportation. It will help improve governance and public administration by establishing a much more transparent and accountable institutional framework for roads management and administration, fostering private sector participation in road rehabilitation and maintenance, and strengthening decentralised road planning and management processes.

Sustainable economic and social development

As part of the Government's commitment under ROCS, the World Bank provided support to ANE to develop an Integrated Road Sector Strategy for the period 2001 to 2010 with the following objectives :

- To prepare a vision for the road sector and a framework for future management, within the national transportation strategies and overall economic development objectives;
- To set out a strategy for the management, financing and development of the road network in the context of Pan-African, southern-African, national and regional transport policy objectives;
- To provide a strategic framework for further development of private sector capacity in highway maintenance and construction;
- To set out an action plan with objectives, benchmarks, performance indicators and triggers between the phases;
- To facilitate continuing sector dialogue between beneficiaries, stakeholders, government and donors;
- To provide a basis for future development of the Government's road sector policy.

The draft Integrated Road Sector Strategy Study assures the sustainability of the road network by giving priority to maintaining roads that are already in passable condition before any additional roads are added to the network, and by collecting revenues from road users in a manner ensuring the flow of funds to cover all maintenance needs.

Regional Integration

GoM ratified, in 1998, the SADC Protocol on Transport, Communications and Meteorology. The MTC is currently involved in the framework, and as chair, of SATCC to harmonize the internal maximum allowed axle load, overload control, truck combinations, driving licenses and the formula for calculation of cross boarder road user charges with the SADC member States. Mozambique has developed a Concept of Economic Zones for which a special fiscal regime has been created to attract investment, i.e. the Zambezi River Basin, the Maputo Development Corridor from Maputo Port to Witbank in S. Africa, and the Beira, Limpopo and Nacala corridors. MTC is in the process of setting up authorities for these, to establish a new environment for the transport sector. Ideally, all transport services should be provided by the private sector, which should also operate a large part of the transport infrastructure through long-term concession agreements.

The Road Fund

The Road Fund is responsible for routine and periodic maintenance, as well as the operational costs for ANE. New constructions and rehabilitation should be financed directly from the GOM Budget, as follows :

| Year | 2002 | 2003 | 2004 | 2005 |
|---------------------------------------|-------------|-------------|-------------|-------------|
| Fuel Levies | \$37.1 | \$41.3 | \$45.9 | \$50.9 |
| Counterpart Funding of Rehabilitation | \$3.4 | \$3.4 | \$3.4 | \$3.4 |
| Total Revenues (in Million \$) | \$40 | \$45 | \$50 | \$55 |

In 2002, projected revenue from fuel-based user charges (M\$ 37,1) and road fees (M\$ 2,5) is in total M\$ 39,6. Projected costs, routine maintenance (M\$ 10,4), periodic maintenance (M\$ 42,0) and ANE (M\$ 11,0), are M\$ 63,4. The financing gap is M\$ 23.8 million.

The fuel levy as at May 2001 was \$ 0.07/litre, and will gradually increase to \$ 0.105/litre in 2005. However, even with these annual increases in the fuel levies, the RF is not expected to have enough own revenues to cover routine maintenance and all periodic maintenance in 2005. In addition to increasing fuel levies, MPF will transfer agreed levels of funds in timely annual amounts to the RF (M\$ 38 in 2001, increasing to M\$ 55 in 2005). The financial sustainability of the roads programme is of crucial importance to GoM, ANE and donors. Indicators associated directly with financial performance are; satisfactory financial management of ANE and the Road Fund, and GOM providing agreed level of funds for Road Fund and investment expenditure. The implementation of the Financial Management System together with the substantial high level technical assistance to ANE and the RF will allow enhanced financial reporting and monitoring.

Financing by source for phase 1 of Roads III, September 2001 – June 2005. (All costs in M\$)

| Component | Indicative Cost | GOM & Road Fund | IDA | Other Donors |
|---------------------------------------|-----------------|-----------------|----------------|----------------|
| A. Civil Works | | | | |
| 1. Routine Maintenance | \$50.3 | \$47.5 | \$0.0 | \$2.8 |
| 2. Periodic Maintenance | \$224.1 | \$127.8 | \$38.1 | \$58.2 |
| 3. Rehabilitation | \$240.0 | \$12.0 | \$55.8 | \$172.2 |
| 4. Rural Roads & Bridges | \$69.0 | \$0.9 | \$17.3 | \$50.7 |
| 5. Emergency Works | \$11.0 | \$0.3 | \$6.3 | \$4.4 |
| 6. Road Safety | \$10.9 | \$0.3 | \$7.1 | \$3.6 |
| 7. Engineering Services | \$44.6 | \$12.2 | \$12.8 | \$19.6 |
| Total Civil Works | \$649.8 | \$201.0 | \$137.3 | \$311.5 |
| B. INSTITUTIONAL STRENGTHENING | | | | |
| 1. Technical Studies | \$11.5 | \$0.0 | \$4.8 | \$6.7 |
| 2. Expertise | \$11.6 | \$0.0 | \$7.4 | \$4.2 |
| 3. Training | \$5.2 | \$0.0 | \$2.7 | \$2.5 |
| 4. Support to Management | \$1.9 | \$0.0 | \$1.9 | \$0.0 |
| 5. Operating Expenses | \$10.3 | \$10.3 | \$0.0 | \$0.0 |
| Total Institutional | \$40.5 | \$10.3 | \$16.8 | \$13.4 |
| C. Preparation for Phase II | | | | |
| 1. Strategy Formulation | \$0.6 | \$0.0 | \$0.6 | \$0.0 |
| 2. Studies | \$11.4 | \$0.0 | \$6.1 | \$5.3 |
| Total Preparatory | \$12.0 | \$0.0 | \$6.7 | \$5.3 |

The Road Fund finances (A1) (A2) (B5) from road user charges. The MPF finances counterpart payments (out of the investment budget and channelled through the Road Fund) for (A3 to A6).

Indicative donor commitments to the various components of phase 1 of Roads III, 2001- 2005 (M\$)

| Symbol | Donors Name | Components | | | |
|---------------|--|------------------------------------|------------------------|--------------------------|----------------|
| | | Routine or Periodic Mainten. | Civil Works (Rehab) | Institutional Support | Total |
| ADB | African Development Bank | | \$34.9 | \$10.3 | \$45.2 |
| BADEA | Arab bank for Economic Development of Africa | | \$3.9 | \$2.3 | \$6.2 |
| DANIDA | Danish International Development Agency | | \$4.0 | \$2.0 | \$6.0 |
| DFID | British International Development Agency | | \$1.6 | \$5.6 | \$7.2 |
| EU | European Union | \$36.0 | \$66.1 | \$12.9 | \$115.0 |
| IDB | Islamic Development Bank | | \$9.8 | -\$0.9 | \$8.9 |
| IFAD | International Fund for Agricultural Development | | \$8.6 | -\$1.1 | \$7.5 |
| Irish | Irish Aid | | \$1.2 | \$1.0 | \$2.2 |
| JICA | Japan International Cooperation Agency | | \$14.0 | -\$4.0 | \$10.0 |
| KfW | Kreditanstalt fur Wiederaufbau (Germany) | \$12.0 | \$9.9 | -\$0.9 | \$21.0 |
| NDF | Nordic Development Fund | | \$10.0 | \$0.0 | \$10.0 |
| NORAD | Norway Development Agency | | \$4.4 | -\$0.6 | \$3.8 |
| OPEC | OPEC Fund | | \$5.5 | \$1.5 | \$7.0 |
| Sida | Swedish International Development Agency | | \$20.0 | \$11.0 | \$31.0 |
| UNCDF | United Nations Capital Development fund | | \$0.5 | \$0.8 | \$1.3 |
| USAID | United States Agency for International Development | | \$18.8 | \$6.7 | \$25.5 |
| IDA | International Development Association | \$41.9 | \$67.9 | \$52.3 | \$162.0 |
| Other | Others, and Financing to be found | \$12.0 | \$4.1 | \$6.5 | \$22.5 |
| | Total | \$101.9 | \$285.3 | \$105.1 | \$492.3 |

3. Food security and Agriculture

As food security functions and activities are multisectoral, they fall within the mandate of several line ministries. The key sectors and ministries involved in the food security are:

- The Ministry of Agriculture and Rural Development (MADER).
- The Ministry of Industry and Commerce (MIC).
- The Ministry of Planning and Finance (MPF).
- The National Agrometeorology Institute (INAM).

MADER is responsible for the ongoing five-year SIP (PROAGRI) and the National Food Security and Nutrition Strategy (NFS&NS). PROAGRI is a crucial element in the government's strategy to reduce food insecurity in the country, whilst reforming MADER to enable agricultural services to be delivered to small producers in rural areas. Under the auspices of MADER, two other institutions are quite important in the production and processing of two cash crops that are a major source of foreign exchange revenue, rural employment, and smallholder income:

- The National Cashew Institute (INCAJU), whose main task is to promote, co-ordinate, and monitor research and extension activities in the cashew sub-sector. The development of small-scale processing activities is also within INCAJU's scope of intervention.
- The Cotton Institute (IAM), mandated to promote the development of all cotton-related activities, and to propose to MADER the award of new concession areas for cultivation.

MIC's main role is to enhance GoM's capacity to facilitate a more transparent marketing environment for trade, particularly of basic goods and agricultural commodities. INAM is responsible for providing regular weather forecasts and updates to the general public, and plays a critical role in the provision of meteorological information to end users, namely early warning/food security information systems. Liaison with MPF is mainly

related to financial support to the budget, aimed at supporting the public sector reform process. MPF is the government entity responsible for the overall implementation of budget support programmes.

Less progress has been achieved in reforming State institutions than State functions. Sectoral Investment Programmes (SIPs) in key sectors are only just starting. The agricultural SIP, PROAGRI - considered the most advanced - started in 1999. The human resource base of the Ministries remains basically unchanged, a weakness which is even more severe in the provinces. About 72% of all civil servants work in Maputo, and only 3% have tertiary education. Whilst these factors constrain the ability of the state to execute its mandate, strengthening those state institutions crucial to consolidating market-oriented reforms and ensuring a sustainable improvement of the food security situation is a medium- to long-term process.

Non Governmental Organisations (NGOs)

NGOs play a critical role in two ways. Their activities complement the public sector in areas where the state is responsible, whilst providing training to public sector institutions in what could be described as a “transitional arrangement”. The management of these activities will be progressively taken over by the state as its capacity increases. NGOs also contribute to strengthening civil society, and to the facilitation of private sector development, supporting activities that fall outside the scope of the public sector. This is acknowledged officially by the State, which contemplates outsourcing to NGOs (“contracting” them with public funds) in key initiatives, such as PROAGRI and the Cashew National Plan.

Private Sector

In the new environment, state action alone cannot guarantee agricultural growth. Although much emphasis is placed on its role, the private sector is still in its infancy due to decades of socialism and widespread state intervention. The result is a certain institutional “vacuum”. Civil society is extremely weak. Most agricultural actors are considered “informal”, and lack a proper legal status. A major effort is therefore required in terms of training, access to markets, organisation, financial support, etc. Moreover, as agriculture is dependent on peasant production, smallholder agricultural development is the key to reducing food insecurity and poverty. About 80% of the population live in rural areas and obtain their income from agriculture. In order to ensure a more equitable spread of the benefits of economic progress, and to directly support GoM’s objectives of poverty reduction and improved food security, smallholders need to be specifically targeted.

SITUATION OF RURAL POVERTY

Recent evidence from the only nation-wide poverty assessment carried out to date shows clearly that, even though Mozambique is recovering from the emergency and becoming more self-reliant for basic needs, a great deal of structural poverty remains. In 1997, over two thirds (67.3% or 10.9 million people) were estimated to be living in a state of absolute poverty². Of these, 37.8% are estimated to be ultra-poor. The incidence of

² The MIAF study, on which the MPF assessment was based, used per capita consumption as the basis of welfare, with the poverty line defined as the ability to purchase or produce the average daily calorific requirement of 2150 Kcal. The MIAF survey sampled 8,000 households in Mozambique.

poverty is higher in rural areas (71%) than in urban areas (62%) and its depth and severity more acute. With the vast majority of the population living in rural areas (80%), poverty can be said to be predominantly a rural phenomenon. Given these trends, the MPF Poverty Assessment concludes "that for the purpose of targeting, it is clear that policymakers look first at improving the conditions outside of Maputo". Within rural areas, it is possible to characterise the main features of poverty:

- The poor tend to have **larger households** (5.6 members in poor households as against 3.6 in non-poor), the difference being largely due to the higher number of children. This results in a higher dependency ratio. Overall, there is little statistical evidence to indicate that female-headed households are disproportionately poorer in rural or urban areas. However, women are not a homogenous group, and while many enjoy the benefit of remittance incomes, women alone are particularly vulnerable owing to weak land tenure and property rights.
- The **educational** level is extremely low. Only 32% of the adult rural population are literate, with the lowest literacy rate among rural women, at only 15.7%. Although literacy rates vary with the levels of poverty, the differences between regions and between sexes are much greater than between the ultra-poor, poor and non-poor. The extremely low literacy rate among rural women has serious implications for agricultural productivity.
- The non-poor are much more likely to be **employed** in the work force than the poor and ultra-poor. Unsurprisingly, 95% of the rural workforce is employed in agriculture, the sector with the highest incidence, depth and severity of poverty.
- The non-poor have larger per capita **land holdings** than the poor, strikingly so in rural areas, where the non-poor have on average 50% more. The use of agricultural inputs is low for both non-poor and poor. Only 12% of rural households use hired labour, but this is twice as common in non-poor households. The non-poor are more likely to sell agricultural surpluses.
- As would be expected in a poor country, the **proportion of the household budget spent on food** is high, at 68% nationally. The difference between the rural poor and non-poor is small. The rural poor rely more on their own production, with about half of food needs being purchased, whereas this proportion being considerably higher for the rural non-poor.
- 43% of children under five suffer from **chronic malnutrition**, and one in every six has a low birth weight. In general, there is little variation across poverty classes, although in fact mortality rates are closely correlated with poverty.
- **Access to services** is low, with the exception of primary schools and traditional healers. 65% live in villages with a first level primary school, but only 2% with a secondary school. Fewer than 20% live in a village with a nurse, midwife or health post, and only 2% near a doctor. The average distance to a health post is 20-30 kms. Only 25% have regular access to transport or markets.

The Food Security Situation

There is general agreement that, technologically speaking, most of the agricultural production increases within food crops has been due to the expansion of the area under cultivation. However, what is not so clear is whether productivity levels are increasing or decreasing. During the last three agricultural seasons, maize yields have varied between 0.7 to 0.9 tons/ha, against an average yield in southern Africa of 1.2 tons/ha. It is,

however, clear that yields vary significantly within the country, and that they are below Sub-Saharan African averages. One of the critical challenges of agricultural market liberalisation in Eastern and Southern Africa is how to support productivity improvements in smallholder agriculture.

Some of the main problems faced by Mozambican smallholders are the following:

- Insufficient knowledge about available technologies and lack of access to inputs. Input use is almost non-existent, seed distribution limited, and overall quality seems to be deteriorating. The very low use of fertiliser has an obvious impact in terms of productivity, land use and management. More generally, the potential limits of production with current technological packages need to be discussed in depth and the appropriate mix identified.
- Land use is an important topic, since reduced soil fertility and increased degradation have a significant impact on overall productivity.
- Poor physical infrastructure – road, shops, warehouse and storage facilities, etc - results in high post-harvest losses, high transaction costs and lost marketing opportunities.
- Limited organisation of agricultural production and marketing; the lack of producers' associations is related to legal constraints, as well as to farmers' knowledge on how to proceed. This in turn has an impact in terms of access to inputs, including credit.
- Limited availability of rural finance, either for production or commercialisation.
- Poor information about prices, trading opportunities and so forth.
- Weak capacity of state institutions to design and implement policies and programmes.
- Weak relationships between the state, private sector incl. NGOs, and donors.

GOVERNMENT POLICY

Current development efforts undertaken by the Government towards the establishment of sustainable food security within a market economy are coherent with five key policy initiatives:

Action Plan for the Reduction of Absolute Poverty (PARPA): PARPA's main objective is to reduce national poverty from 70% to 60% by 2005 and 50% by 2010. The plan defines low agricultural productivity as one of the key determinants of poverty, proposing a number of specific objectives to tackle this problem. These include improving productivity through the use of improved seeds, fertilisers, and better extension networks; access to land; access to markets; improving food security; access to financial resources; natural resources management; promotion of producers' associations, and nutritional education. The key Government programmes/policies for achieving these objectives include the Food Security Strategy, PROAGRI, and the Trade Policy and Strategy.

The National Food Security and Nutrition Strategy (NFSNS): The strategy, approved in December 1998, delegates the responsibility for the formulation of its action plan to MADER. The main objectives of the strategy are to link food security to rising production and diversification of food crops, better and more diversified sources of non-farm income, and improved knowledge of appropriate technologies for food production and conservation.

The National Trade Policy and Strategy (1998): This represents the first explicit effort ever to formulate a concise trade policy framework, *inter alia* delineating the basic

responsibilities of public and private sector and defining the main strategies to develop domestic trade. However, many elements of the policy framework need to be designed and implemented.

The National Programme for Agricultural Development: PROAGRI, launched in January 1999, is a key element in the GoM's strategy to reduce food insecurity in the country. PROAGRI is essentially a process of institutional reform, the instrument to effect the transformation and enhance the capacity of the Ministry to undertake its newly defined core functions efficiently and effectively. PROAGRI will replace project assistance to MADER with a more co-ordinated programming and financing approach, optimising the impact on the agricultural sector of available GoM and donor resources.

Decentralisation in Mozambique

In addressing the key challenges of post war reconstruction and poverty reduction, the GoM recognised that unless the energies of civil society, the private sector and NGOs could be effectively mobilised and co-ordinated, the state alone would not be able to make sufficient progress. This implies the joint processes of:

- *Democratisation* – to create genuine opportunities for popular participation and involvement
- *Decentralisation* – to ensure that regional and local organs of the state have the necessary autonomy and flexibility to turn participation at the local level into a meaningful reality.

To this end, the 1990 Constitution envisaged a system of democratically elected local authorities in both rural and urban areas. Although the law on political decentralisation was approved, it was never fully implemented owing to strong political opposition that was formally based on constitutional grounds, which stalled the local government elections and also led to a change in the overall approach to decentralisation. This was reflected in a Constitutional amendment of 1996 which fundamentally altered the territorial basis of future municipalities by restricting them to urban areas, thereby excluding 77% of the (rural) population. A new law was subsequently passed in 1997. The basic difference was that decentralisation was limited to improving the capabilities at the lower echelons of government administration instead of handing over authority to new autonomous local bodies on the basis of democratic elections. Moreover, the law arranged for consultative councils, which supplemented rather than replaced the centrally nominated local bodies, and limited the area where new bodies could be established to only 33 municipalities. Formally, the government policy is to gradually extend the consultative councils to the rural areas, though no decisions have been taken on the composition of these councils. Two documents produced in 2000³ confirm the district as the main territorial unit and the basis of planning, and call for consultative councils at both the district and *posto* level. Neither draft law provides for genuine participation: the communities' role is limited to the implementation of decisions already taken by the administration. The two laws differ with regard to the position of the locality. One states that the head of the council should be elected, whereas the other proposes appointment by the Governor. Although no decisions have been taken, it would seem clear that decentralisation is essentially administrative de-concentration and there is little room for

³ 'Lei dos Orgaos Locais do Estado' and 'Anteprojecto de Lei dos Princípios e Normas de Organização e Funcionamento dos Órgãos Locais do Estado'

genuine participation. Decentralisation and local government are key areas of interest for the Inter-ministerial Commission for Reform of the Public Sector, formed last year.

Although political devolution to elected forms of local government was effectively ruled out, the government nevertheless demonstrated that it was ready to move forward (albeit cautiously) towards more participatory forms of administrative decentralisation (de-concentration) in the districts. In September 1998 the MPF and the MAE issued a set of guidelines for District Development Planning, and approved the piloting of a decentralised planning model in Nampula. In 2000, a new co-ordinating Inter-Ministerial Committee was formed that also included MADER, as the entity with the mandate for rural development. Following a positive mid-term appraisal, this approach will be cautiously replicated in other provinces, including Zambezia.

THE EC FOOD SECURITY PROGRAMME

The ultimate objective of the Food Security Programme (FSP) of the Commission is to support the attainment of sustainable food security at the household and national level. An overriding principle of the FSP is its consistency with the EC's country programme. Consistency with MS co-operation is also an important principle. This is currently being achieved through the participation in the PROAGRI DWG, and regular bilateral contacts with advisors. The FSP advocates a sub-regional approach to food security, incorporating lessons learned across countries, including cross-border interactions and consistency and early warning information systems. A number of sub-regional marketing studies for specific crops are envisaged, leading to the possible negotiation of commodity-specific bilateral trade agreements between Mozambique and neighboring countries, in particular with Malawi.

ANNEX 8 :KEY INDICATORS FOR REVIEW

Overall objective of PARPA for 2005 – to reduce the proportion of those living in poverty from 70% to 60% of the population (about 1.2 million people)

| <u>Sector</u> | <u>Government actions</u> | <u>Intermediate process indicators</u> | <u>Performance indicators to assess progress towards PARPA's 2005 targets</u> | <u>Current situation</u> | <u>PARPA 2005 targets</u> |
|--|---|--|---|---|---|
| Macro-economic management and development | i) Development of growth strategy | i) Progress in linking growth strategy to PARPA ii) Maintenance of macro-economic stability iii) Public sector reform process revitalized | i) Positive trend of GDP/capita ii) Decrease in rate of inflation iii) Increase in rate of revenue inflows by private sector iv) Increase in number of private firms registered and related jobs created | Av. 7.7% growth 93-99 (2.1% in 2000) 12% end 2000 Overall Gov. revenue target 12.2 % of GDP | 8% growth/ year 2001-5 <5% Overall Gov. revenue target 14.6% of GDP |
| Public Expenditure Management | i) Satisfactory annual review process for PARPA ii) Linking Gov. action plan for Public Expenditure Management with PARPA to ensure budget comprehensiveness | i) No issuance of credit from Central Bank for budget financing ii) New accounting system operating in PARPA focal ministries iii) Continued annual audit of State budget iv) Off-budget expenditure integrated into budget | i) Quality of audited accounts and corrective actions ii) Increased allocation and execution of resources as per PARPA | | |
| Transport | i) Autonomy of Road Fund ii) Govt.'s increased contribution to Road Fund financing iii) Completion of Integrated Road Sector Strategy | i) Independent finance and management structure created ii) Level of fees, etc. from road users regularly adjusted to road maintenance needs and increased maintenance expenditure iii) Government adoption of Integrated Road sector strategy | i) Quality of Road Fund audits and corrective actions ii) Quality of road conditions iii) Affordability and frequency of transport services | 30% roads in poor condition | <25% roads in poor condition |
| Food Security | Broadening of PROAGRI SWAP | i) Increase in number of smallholders using improved techniques | i) Malnutrition decreased ii) Increased private sector involvement | | |
| Health | Development of sector-wide approach | i) Improved procurement and delivery of essential medicines and supplies (i.e. transparent procedures and uninterrupted supplies) | i) Decrease in child mortality rate (all causes) ii) Incidence of HIV/AIDS | 200 per thousand 16.4% | <190 per thousand 17% |

| | | | | | |
|------------------------|---|--|--|-----|--|
| Good governance | Development of judiciary sector reform strategy | Progress in development and implementation of judiciary sector reform strategy | i) % of outstanding cases as a proportion of total cases (criminal and civil) in the courts | 77% | To be defined in strategic plan |
| Education * | Consolidation of sector wide approach | i) Positive trend in budgetary execution in primary education sector | i) increased % of girls (particularly in rural areas) in primary and secondary education | 43% | 48% |

* Though the EC is not involved in the education sector, the sector-wide approach is important to PARPA

NB : i) PARPA is still under negotiation, and as it is not yet approved, its objectives may be subject to modification.

ii) The performance indicators do not take account of any external shocks which may occur.

iii) Performance indicators in bold type are taken directly from PARPA